CANADA

BUDGET SPEECH

DELIVERED BY

HONOURABLE D. C. ABBOTT
MINISTER OF FINANCE
MEMBER FOR ST. ANTOINE-WESTMOUNT

IN THE

HOUSE OF COMMONS

MARCH 22, 1949

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1949

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APPENDIX

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MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS, TUESDAY, MARCH 22, 1949

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. Douglas Abbott (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, once again it is my pleasant duty to bring down the annual budget amid conditions of sustained—one might almost say unexcelled—prosperity. Despite the grave uncertainties and the persistent difficulties that beset us in the field of international affairs, we Canadians as a whole have continued throughout the past year to enjoy higher standards of living than ever before. The volume of industrial output for civilian account, in the form of both consumer goods and capital goods, has never been higher. Cash income derived from farm crops, and the value of commercial fish landings in 1948 have also reached figures never before equaled. The output of our mines has increased by nearly one-third during the past three years, and is now running at a rate within two per cent of the wartime peak.

In other words, during the past year the Canadian economy—and by that phrase I mean this community of a million and a half farmers and fishermen, of three million industrial workers, and of hundreds of thousands of business, salaried and professional men and women, great and small—during the past year this community of free people has produced a record quantity of consumer goods, and at the same time has produced and installed a huge amount of new and improved capital equipment which promises still greater output in the years immediately ahead.

But what is even more satisfactory is that the energy, industry, skill and equipment which have been put into industry during the past three or four years is now bearing fruit in the form of a greatly increased flow of goods. Most of the serious shortages of goods have been overcome. The post-war world price inflation appears to have run its course. Since the late summer the price indexes have leveled out both here and in the United States —the two countries in which a free price market most nearly exists. In some sectors of the price structure, where the increases had been particularly great, prices have begun to recede to more healthy levels.

Prediction in a world so full of uncertainties must always be hazardous, but there is a wide measure of agreement, both here and abroad, that, barring the three major catastrophes of war, crop failure and widespread industrial work stoppages, the post-war price inflation has come to an end. That is not to say that there are not some acute shortages, as in steel or in housing, nor that there may not be considerable ups and downs in the prices of individual commodities from week to week and month to month. But the general assumption which I feel justified in making at this point is that when we come to the end of this year and look back we shall find that the price level as a whole will be no higher than it is now and that the prices of some groups of commodities at least will be somewhat lower.

The conditions and prospects which I have thus briefly sketched enable me to recommend to this house a series of proposals which combine a prudent provision against future uncertainties with a considerable measure of immediate tax reduction.

OBJECTIVE OF POLICY

It seems to me that the time has now come when our objective should be to sustain our present high levels of output, avoiding the evils of unemployment on the one hand and further inflation on the other. The aim of both public and private economic policy should be to hold steady on the course. It cannot be the steadiness of inaction. To hold a steady course we must continue to devote much of our effort to further development and betterment. We should not seek just a balance, but a balance in motion.

Of course, we have our pessimists here and elsewhere. There are those whose eyes, fixed firmly on the past, see only the depressions that have followed the booms. But the best opinion I have been able to form leads me to believe that we can hold the current levels if we, and others in like position, act sensibly. I do not expect in the near future any serious decline in the high level of expenditures in North America, upon which our present prosperity is based. Businessmen, public authorities and consumers still have large demands to be filled, and the wherewithal to pay for what they want. Overseas countries still have many requirements to be met from north American production. Their own ability to pay is increasing and in the meantime is being supplemented by assistance from this side of the Atlantic. As I have said, no one can look far into the future with complete assurance in this uncertain age, but we can see far enough to make it possible to lay our plans now in the expectation that something like the present level of production and income for the country as a whole will persist throughout this coming year.

At the time of the last budget our most urgent and difficult economic problem was our shortage of foreign exchange. The progress made in this matter has been evident in our improved trade figures and in the recovery of our exchange reserve.

The present size of our exchange reserves shows the great improvement that has taken place since the end of 1947, when the emergency measures designed first to stop and then to reverse the serious drain on our reserves went into effect. From the dangerously low level of $502 million on December 31, 1947, our reserves rose to $998 million on December 31, 1948, and are now about $1,065 million, a level which, though not yet satisfactory, is much more nearly adequate to safeguard our position against the deficits which could develop without much warning in a trade as large and vulnerable as ours. In appraising this higher figure, one must bear in mind that it includes government borrowing of $150 million in the United States. On the other hand it also reflects the net foreign lending by the government amounting to about $100 million in this 15-month period.

All things considered, the change in our reserve position has been quite remarkable. During most of 1947 we were losing reserves at an average rate of $70 million a month. Since the beginning of 1948, excluding the long-term loan, we have been rebuilding our reserves at an average rate of about $30 million a month. In other words there has been a reversal of trend of the order of about $100 million a month. Improved tourist revenues as well as other invisible items on both current and capital account have contributed to this result, but it is clear that the principal increase in our reserves has come through the improvement in our merchandise balance of trade, and in particular our balance with the United States.

The trade figures for the year 1948 as a whole, when compared with 1947, show in a striking way this principal reason for the improvement in our exchange position. Our total exports increased from about $2·8 billion to about $3·1 billion. Most of this increase was due to the higher prices at which our goods were sold, but in some groups of commodities there were satisfactory increases in volume. The total value of our imports remained almost unchanged at about $2·6 billion, despite an average increase in their prices of over 10 per cent. There was therefore an appreciable decrease in the actual volume of goods imported. Taking tourist business, freights, interest and dividends and other similar transactions into account, our net balance on current account transactions with all countries increased from a surplus of only $47 million in 1947 to one of about $450 million in 1948. Hon. members will realize, of course, that in 1948 we were not selling so much on credit and that this larger current balance was not offset to the same extent as in 1947 by large-scale foreign lending.

This improvement in our trade balance took place almost entirely in our trade with the United States. Our exports to Britain and its sterling area were reduced in total value by $130 million, or about 12 per cent, due mainly, of course, to their need to save dollars. Our exports to other countries—mainly European—were reduced by $30 million, or about 5 per cent, for similar reasons. Our imports from both these areas were increased substantially—by $230 million, or nearly 40 per cent. This improvement in the capacity of these areas to resume their pre-war share in supplying our needs has been most welcome. It reflects a fundamental improvement in their productivity and output, as well as

their efforts to sell, and our efforts to encourage the resumption of something approaching the pre-war pattern of trade.

On the other hand, our 1948 imports from the United States were $170 million less than in 1947, or a reduction of about 10 per cent, and this despite some sharp increases in the cost of American goods. The reduction of $170 million is the net result of two contrasting trends. In the case of goods enumerated in the Emergency Exchange Conservation Act, the value of imports from the United States was reduced by $300 million; but the volume of all other imports rose by $130 million. Increases in oil, coal and farm machinery alone amounted to more than $120 million.

But the feature of our trade which I find most encouraging has been the increase in our exports to the United States. Here, the total value increased from just over one billion dollars in 1947 to more than one and a half billions in 1948. Some of this increase is due, of course, to higher prices—especially for pulp and paper and metals. Some of it is due to very large exports of cattle. But much of it, I am glad to say, is the result of improved Canadian ability to produce for, and sell to, the United States market, and of the reductions in tariffs obtained in the Geneva agreements. This big improvement in our exports to the United States was the type of constructive solution to our exchange difficulties that we were hoping to achieve, and I am gratified—as I hope you, sir, and all other hon. members are as well—at the extent of our success in this direction.

To summarize these trade figures briefly, our debit balance with the United States has been reduced by $635 million, and our credit balance with all other countries has gone down by $400 million, leaving a net increase in our over-all credit balance of $235 million.

Our exchange problem is now approaching manageable proportions. As this house is aware from the discussions of the past few days, it is necessary to continue controls over imports as well as capital exchange transactions, in order to improve and safeguard our exchange situation, but these need not be so general or severe as to interfere seriously with the free working of our economy. I shall be announcing later in this statement some further welcome relaxations in these import restrictions, effective April 1.

EUROPEAN RECOVERY PROGRAM

I cannot leave this discussion of our exchange situation without expressing appreciation of the farsighted actions of the United States in promoting the economic recovery of western Europe. This sensible and practical program has already overcome some of the difficulties which eighteen months ago seemed almost insuperable. It is slowly but surely putting back on its feet one of the great productive areas of the world. This economic restoration is clearly a prerequisite for a stable and progressive political life in this key area, and as such it is a matter vital not only to our future economic well-being but to our very national safety. To us in Canada the general and longer-run benefits of European recovery and progress are of prime importance.

The grants and loans being financed through ECA are of great immediate value, but in another and more fundamental way the European recovery program is contributing to a betterment of our trading and income prospects. As a result of ERP, and more generally of the broad basic policy which underlies both ERP and the North Atlantic treaty, Europe is rapidly recovering confidence in its own future. The immediate crisis of confidence which was so alarming two years ago has passed. Without this restoration of confidence the large programs of financial aid would have proved merely palliative. As it is, the level of industrial production in western Europe, and for this purpose I include the German bizone, during the last quarter of 1948 was 20 to 25 per cent above the average of 1947, and most of the individual countries in this group have now reached or passed their pre-war levels of industrial output. Of course, much of this output is still going into the repair of the physical ravages of war, and is therefore not yet available for an improvement of standards of living or to pay for the additional imports which the restoration of a normal and rising standard of living demands. The future holds many uncertainties, but we can express gratification for the progress that the first year of ERP has witnessed.

TRADE POLICY

There is one aspect, both of this exchange situation and our own general economic situation, which is clearly going to require continued attention from the government and parliament, as well as from Canadian businessmen. That is the problem of maintaining and extending Canada's overseas exports. In many traditional areas these have been declining during the past year under pressure of their dollar shortage, the adoption or tightening of import restrictions, and the increased supplies becoming available from other countries. In the light of all these adverse conditions, our export trade has

stood up relatively well, but we cannot be satisfied with its present situation or immediate prospects. We must seek improvement. We must search for those adjustments from day to day and month to month that will maintain as far as possible our traditional markets. It was for the purpose of re-establishing and maintaining these traditional markets that we undertook a large export credits program. To the extent that those markets are closed to us, we must develop alternative outlets. While attempting to overcome the immediate difficulties, we must persevere in working out the constructive solution through trade agreements on a wide, non-discriminatory basis, and by other measures of a basic character that will assist those countries that buy from us to find dollar markets for their own exports, in order that they may pay for what they would really like to get from us. Over the long run, the establishment of prosperous trading conditions must come largely through the reconstruction of those countries overseas with whom we trade, through the expansion of their output and through the recovery of their productive efficiency, so that once again they will be able to earn enough to pay for the imports which they need.

It is only natural in the face of this problem that some should urge us to reverse our basic trade policy and embark upon barter deals, discrimination, and the balancing of trade accounts with individual countries. These are courses that many others are following. Discriminatory deals between others are interfering with our trade. It is tempting in the short run to consider doing similar deals, particularly to sell this or that, where our exports have been supplanted by others. However, it is too easy to look at only one side of the picture. If you look at the country as a whole, if you examine all aspects of the problem, I believe you will find that such a course would not serve Canada's best interests.

We believe that the inevitable effect of these bilateral, discriminatory deals is to diminish the total volume of world trade. However, even apart from this basic objection on grounds of principle, there are also, from Canada's standpoint, serious practical objections. In the first place, most of our trade takes place with the United States—both export and import—and we cannot deal that way there. There is a real danger that we may prejudice this greater part by trying discrimination and barter in the lesser. Secondly, we are not in a good bargaining position to make successful bilateral deals, deals which by their very nature would force us into bilateral balancing with each individual country. The normal and healthy pattern of our trade is triangular or multilateral. We might succeed in selling some surplus products by special deals—but we would have to take some other surpluses in return which we do not want and cannot really use; and for things we want we would be pressed into paying prices which our consumers would be unwilling to pay. In general, the advantage lies with the larger countries in these deals, particularly as sellers' markets give way to buyers' markets. If anyone feels tempted to start this kind of trading in a few problem cases, let him consider how we are likely to get along in the bargaining as we get drawn further and further into it.

The third practical objection to this line of approach is one in which most, but not all, members of this house will agree. It is that the application of a policy of barter, bilateral deals, and discrimination requires widespread governmental control of private trade, and even the extension of trade by agencies of the government itself. Deals of this sort would require a multiplication of import controls, export controls, licences and permits. It is apt to lead to more government buying and selling, frequently involving subsidies and trading losses. This may fit into the philosophy of government prevailing in some other countries, but most Canadian don't like controls and don't want their government getting deeper and deeper into import and export business.

ECONOMIC SITUATION

It is unnecessary, I believe, for me to go into any more detailed review of the economic situation, save such as may be relevant to the appreciation of our fiscal position and policy. As usual I am tabling a white paper that contains, in addition to the detailed estimates of revenue and expenditures for the year now closing, a review of the more important economic statistics for the past few years and recent months. There are also some paragraphs of exposition and comment prepared at my direction and which I commend to those who wish to consider the budget proposals against an economic background. Members of the house and others will recall as well the two recent reports by the governor of the Bank of Canada and the chairman of the foreign exchange control board in which he deals in his usual lucid and objective fashion with the current developments of importance in this field. Finally I should mention the informative facts and forecasts provided some weeks ago to the house by my colleague the Minister of Trade and Commerce, relating particularly to the prospects for capital expenditure and the supplies available for construction.

Several conclusions emerge from an examination of these facts and forecasts. The first is that the prospective amount of capital expenditure on construction and on machinery and equipment, taken together with the level of exports, appears likely to be sufficient to sustain incomes and employment this year at around their current levels. Although the supply of construction materials will be better this year, construction costs are still abnormally high and there is still evidence of some strain upon the industry. I continue to believe that all construction work under the control of the government which it is practicable to postpone should be postponed, except in those few areas where there may be some local unemployment. That has been the approach of the government in the formulation of its expenditure program for the year. I must say that it gets progressively more difficult to apply this policy from year to year, as really important requirements for construction of all kinds keep accumulating —some of them repeatedly deferred since long before the war. Other needs, too, are constantly arising—some of them from the necessary expansion in the defence program, others from more constructive developments, such as the need to provide improved airport runways and related equipment to accommodate the bigger and better planes now available. We have also given a fairly high priority to construction necessary to permit expansion in our government activities in the field of scientific research and the improvement of techniques and markets for primary production—government operations which we feel are as fruitful as much private work with which they must compete for materials and labour. I hope this view will commend itself to the house and the public.

A second conclusion that emerges from a review of the economic situation is that the pressure of consumer expenditures upon supplies available to consumers is slackening. This may be observed in respect of various particular commodities where consumers can get what they want more easily and promptly than before, even motor cars. In some cases we can observe the occasional emergence of surpluses and of bargain sales by retailers, something which we had almost forgotten to be a normal part of business at certain seasons of the year.

This improvement in the supply situation for consumer goods results mainly from an increase in their supply and, to a lesser extent, I believe, from the filling up of the more urgent needs of consumers deferred during the war and the post-war shortages. Larger supplies of food have resulted from good crops here and elsewhere last year, both in the United States and abroad. The post-war world food shortage is passing over from its acute stage to a less severe phase in which prices and the ability to pay them are governing considerations once more. In other types of goods we are beginning now to receive the increased output in Canada made possible by our extended and improved equipment installed in recent years, as well as the increased imports from overseas as a result of the recovery of production in Europe and elsewhere, and the efforts of various countries to export to our markets.

PRICE TRENDS

This improvement in consumer supplies has brought a welcome halt to the increase in the cost of living. The index of living costs has remained almost constant since last September at a level about 60 per cent above pre-war, and about 30 per cent above 1929. Decreases in food costs have offset slight increases in other items. Some further increases may occur in a few items; but I think we are unlikely to see any significant increase in the cost of living this year—unless, of course, there are serious crop failures—and it is quite possible that there may be some decline. Consumers should have more money to spend this year than last, partly because of the upward sweep in wages that took place last year, partly because of the distribution of wartime refundable taxes that has been going on this month, partly because of additional payments being made to farmers by the wheat board, and partly as a result of the tax reductions which I shall be inviting this house to approve. The time has now come, I believe, when these increased expenditures by consumers can be met by increased supplies of goods without endangering either our price structure or our exchange situation.

In the light of these conditions and in line with the policy to which we have steadily adhered of removing controls at the earliest appropriate time, the government has authorized the wartime prices and trade board to withdraw its price ceiling orders on flour, bread, butter, sugar and molasses, and on those fruits and vegetables which are not limited in supply by the operation of the present import restrictions. Concurrently the government is withdrawing the subsidy of 46½ cents a bushel which has been paid since August 1 last on wheat going into domestic consumption in Canada.

Before turning to a review of the government accounts for the year, I wish to say a few words in regard to provincial matters.

We are now about to enter the third of the five fiscal years covered by our tax rental agreements with seven of the provinces. Those agreements have enabled the provinces concerned to obtain a more equitable share of revenue from the three great sources of direct taxation. They have done so without subjecting the taxpayers of these provinces to dual assessments, dual reporting and the other inconveniences and vexations which double taxation involves. They have enabled all these provinces to have the revenue from these major sources reflect the growth of population and the expansion of national income, and at the same time to have the assurance of an underwriting against the risks of economic adversity. This assurance that, come what may, cash receipts from these important tax sources could not fall below a guaranteed minimum has been, I believe, of great importance in enabling provincial governments to plan in advance their developmental programs and to undertake them with confidence. It has certainly also improved the credit standing of the provinces concerned. From the national point of view, it has removed or vastly lessened the risk that in times of economic difficulty the financial strains to which some provincial governments would be subject might lead to a competitive scramble to impose new and higher taxes and to adopt other policies which would hamper and impede national policies designed to promote economic recovery. They have provided a partial, though not yet a complete, basis for the development of that comprehensive program of co-operation between the federal and the provincial governments which we envisaged as essential to promote the maximum development of our resources and to assure full employment and a wide measure of social security for the Canadian people as a whole.

In all these ways the agreements have contributed to the strength and independence of provincial governments and to the health and vitality of the Canadian confederation. They have added a large measure of economic autonomy to the political autonomy enjoyed by the provinces which have entered into them. It is a travesty to suggest, as has been done so many times in this house in recent weeks, that they have weakened provincial autonomy or created an undue degree of centralization in this country. Two attempts have been made to build a case to support this charge.

The first attempt was based on the argument that the tax rental agreements involved an excessive use of subsidies which threatened the freedom of action of the provincial governments. In reply to that it should first be pointed out that the payments being made to the provinces under the tax rental agreements, apart from the statutory subsidies, are not subsidies at all; they are rentals negotiated by provincial governments for the temporary use of certain rights possessed by them. They are business-like arrangements, subject to re-negotiation at least a year before their termination date, and they do not involve the element of charity nor the surrender of one jot or tittle of constitutional rights. In most of these respects they are in marked contrast with the alternative which some of the critics suggest, namely, fiscal need subsidies which would require the provincial governments to come hat in hand to the federal government and plead for assistance on the basis of need rather than of right.

That should be a sufficient answer to the argument. However, even if we take both the tax rentals and statutory subsidies, we find that the total payments being made by the federal government to the provinces constitute a lower percentage of provincial ordinary revenues than the percentage of statutory subsidies to total ordinary revenues in the case of the four original provinces during the first fifteen years after they joined together to form our confederation. Let me give the figures. In the fifteen fiscal years 1868-1882, Nova Scotia derived 74·1 per cent of its ordinary revenue from federal subsidies; in the current fiscal year it is estimated that only 36·1 per cent of its ordinary revenue will come from subsidies and tax rental agreement payments. The corresponding figures in the case of New Brunswick are 77·9 per cent for the earlier period and an estimated 36·9 per cent for the current year. In the first fifteen years after confederation, Ontario derived 39·9 per cent of its total ordinary revenue from federal subsidies and Quebec 45·1 per cent; if these provinces were participating under the agreement, the percentage of their ordinary revenue derived from tax rentals and subsidies would, it is estimated, be moderately lower than the percentages I have just quoted. In the years following confederation up to 1882, all provinces, on the average, obtained 49·8 per cent of their total ordinary revenues from federal subsidies. For all seven provinces which enjoy the benefits of the tax rental agreement, the percentage of total ordinary revenues derived from tax rentals and subsidies in the current fiscal year is now estimated at only 32 per cent. If such percentages be the test, it is amply clear that we have far less centralization and make much less use of subsidies than the fathers of confederation thought to be necessary and provided for in the making of Canada.

The second attempt was based on the argument that between 1939 and 1947 the increase in dominion tax revenues had been much greater than in the case of the provincial and municipal governments. The simple answer to that argument, of course, is that during the period in question Canada has fought a major war involving the federal government in a perfectly colossal cost and leaving behind it an enormous burden in debt charges, pensions, treatment service costs, rehabilitation and other expenditures for which this government will be responsible for many years to come—and so will it also be for the vastly increased national defence expenditures which the state of the world left by that war is making it necessary for us to carry.

Neither of these arguments stands up nor do any of a similar kind. The simple fact is that the tax rental agreements promote and encourage provincial autonomy by making the provincial governments better able to carry out the heavy responsibilities assigned to them by our constitution. This government yields to no one in its desire to protect their rights and see them financially strong and independent. It yields to no one in its desire to co-operate with them in that kind of constructive partnership which will best enable all governments to tackle and solve the complicated problems of today and give to the Canadian people the measure of peace, prosperity and happiness they have a right to expect.

In this search for co-operation, it will not let pettiness of spirit nor false pride nor undue emphasis on purely financial considerations stand in the way of mutual understanding and constructive results. It will constantly seek out ways of tackling mutual problems and developing practical solutions.

THE GOVERNMENT ACCOUNTS: REVIEW OF 1948-49 AND FORECAST FOR 1949-50

Before appraising the budgetary outlook for the coming fiscal year, it is my duty to report to the house the financial results of the year that is now drawing to its close. The white paper which I am tabling includes the usual detailed statements of revenues and expenditures, and of assets and liabilities. The figures for the year 1948-49 are necessarily preliminary and subject to revision. Our fiscal year ends next week, on March 31, but our books must remain open for several weeks thereafter to record various year-end adjustments and to include all payments made up to April 30 on account of expenditures originating in, and properly chargeable to, the current fiscal year. Final figures for this current year cannot be available for some time.

A year ago I forecast revenue and expenditure figures that would yield a surplus of $489 million. The present figures indicate that our revenues will be $2,768 million, our expenditures $2,193 million, and our surplus $575 million. This surplus of $575 million is $100 million less than we had in the preceding year, but it is $86 million greater than I had forecast for this current year.

A year ago I based my estimates on what I then called a "conservatively optimistic forecast." In fact the expansion of the national income has been somewhat greater than that which I had predicted, and as a result our tax revenues are turning out a little better than the forecast, but the excess is not very great—less than 2½ per cent. We will obtain more from non-tax revenues and special receipts and credits than I had forecast, but expenditures, on the other hand, are within 1 per cent of my forecast.

Considering the magnitude of the total sums involved and the length of time ahead that these forecasts have to be made, I take a good deal of satisfaction in the close rela- results. I do not propose to comment at length on the details of revenue and expenditure, but shall content myself, and I hope the house, with a few general remarks.

Direct taxes, which include personal and corporate income taxes, the excess profits tax and succession duties have yielded $1,369 million, or $51 million greater than a year ago. They accounted for more than 56 per cent of our total tax revenue.

Indirect taxes, which include all customs and excise taxes and duties, have produced $1,072 million, or $62 million less than a year ago.

The greater yield in direct taxes is a reflection of higher incomes and profits; the decrease in indirect taxes is the result of the lower rates of duty under the Geneva agreements, the restriction of imports under the Emergency Exchange Conservation Act and the removal a year ago of the amusement tax, the sales taxes on prepared and packaged foods, and certain other indirect taxes.

Non-tax revenues, that is, post-office receipts and revenues from investments, were $210 million, or $32 million greater than last year. Special receipts and credits, chiefly sales of surplus war assets and sundry refunds, amounted to $117 million. This is $125 million less than a year ago.

On the expenditure side the principal decrease is $229 million in demobilization, reconversion and special expenditures. This decrease was almost exactly balanced by

increases of $203 million in ordinary expenditures and $21 million in the deficits of government owned enterprises.

To a considerable extent this increase in ordinary expenditures is due to transfers of activities from the demobilization accounts to the ordinary accounts, and for the rest it stems from higher old age pensions, increased numbers of persons entitled to family allowances, the expansion of health services, more exploration, survey and mapping work, increased research expenditures, improved roads and tourist facilities in our national parks, improvements in airports and aids to air navigation, the betterment of maritime ports and harbours works, and generally from the effects of the higher price levels of all government operations, including the costs of construction and the costs of materials and supplies purchased, and including necessary adjustments in civil service salaries. I am very keenly aware of these increases in expenditures, and I can assure the house that we are constantly striving to maintain and improve both efficiency and economy in all government activities.

In summary then, our revenues for the year now ending are $103 million less than the preceding year, expenditures as a whole are down $2 million, and the surplus of $575 million is $101 million less than last year. There, in brief, is the result of our current financial operations for the year, and that is the amount by which the net debt of Canada has been reduced.

But, as has to be pointed out each year, the cash position and the cash requirements of the government, as distinct from its revenues and expenditures, are of almost equal importance in their bearing upon the incomes and expenditures of the individuals who make up this nation. Apart entirely from the sale of new securities or the redemption of old debt, the government receives and pays out each year large sums of cash that do not really belong to what an accountant might call its "income account",—they are neither revenue nor expenditure in the accounting or budgetary sense. Moreover some items of revenue and expenditure do not involve any cash receipts or cash outlays.

To arrive at our cash surplus, the $575 million budget surplus must be adjusted upward by $75 million on account of these non-cash items. Then we must add $128 million of cash receipts in the form of additions to various pension and trust accounts. This gives us a total of $778 million available for cash outlays that do not belong in the income account. Of this total $450 million were advanced to the foreign exchange control board to finance its increase in gold and United States dollar reserves, and $57 million were loaned to the United Kingdom and other countries to finance purchases of Canadian products. That is, $507 million were used in connection with the financing of our export surplus. Then we made loans and investments in Canada to the amount of $89 million, $71 million of which were advanced to the Central Mortgage and Housing Corporation for housing construction and housing loans. The total of all these loans, investments and advances is $596 million, and when you deduct that from the $778 million of cash available you get a cash surplus of $182 million. To this cash surplus were added $224 million resulting from sales of securities from our securities investment account. Of the resulting $406 million we used $372 million to make a net reduction in our funded debt, and the remaining $34 million served to increase our cash balances.

Our securities investment account is the one in which the government temporarily holds some of its own securities rather than holding larger cash balances, and it is necessary to make allowances for changes in this account in order to get a proper figure for the change in funded debt in the hands of others. Consequently the reduction of $372 million in our total funded debt should be offset by the $224 million reduction in the funded debt held in our investment account. We then see the reduction in funded debt outstanding outside this account was $148 million. This may be considered as the amount of our cash surplus used to reduce debt, the remainder of it being used to increase our cash on hand.

To summarize this explanation I should like, with the permission of the house, to put in *Hansard* at this point a short table reconciling our budget surplus and our cash position:

Budget Surplus and Cash Position

		(millions)
Net cash balance arising from the current year's budgetary surplus (i.e. budgetary surplus of $575 million adjusted for non-cash items)		$650
Add other receipts:		
Increases in annuity, pension, insurance and guaranty accounts	$93	
Increases in floating debt, deposit and trust accounts, and sundry suspense accounts	35	
		128
		$778
Deduct other disbursements:		
Advances to the foreign exchange control board	$450	
Loans to the United Kingdom and other governments (net)	57	
Advances to Central Mortgage and Housing Corporation	71	
Increases in other loans, advances and investments (net)	18	
		596

Budget Surplus and Cash Position—*Concluded*

			(millions)
Cash surplus—i.e. balance available for debt reduction and/or increase in cash balances			$182
Add:			
Net sales of securities from securities investment account			224
			$406
Deduct:			
Reduction in Canadian funded debt	$472		
Less increase in United States funded debt	100		
Net reduction in funded debt			372
Net increase in cash balances during the year			$ 34

The greater part of the reduction in the funded debt has taken the form of repaying approximately $286 million on account of the compulsory savings portion of the personal income taxes of 1943 and 1944, and the refundable portion of the excess profits taxes of 1943. This completes the repayment of the refundable portion of personal income taxes.

I must not leave this part of my report to the house without referring to the very gratifying response to our offerings of Canada savings bonds to the general public. As hon. members know, the purchase of these bonds is restricted to individuals and is limited to not more than $1,000 of any one series to any one person. Sales of the second series of these bonds reached $288 million. A third series was opened for subscription last October, and sales to date are $248 million. The public response to these issues, and particularly the volume of subscriptions made through the payroll savings plan, shows that Canada savings bonds fill very acceptably a real investment need for the rank and file of the Canadian people.

These results for the year should be a source of gratification to all Canadians. We have reduced our net debt by $575 million at the time when we could best afford to do so. It is still a very large debt—a net debt of $11·8 billion, and a total funded debt of $15·6 billion. There will undoubtedly be years when we will need to increase it in order to finance expenditures in excess of revenue, when economic conditions make that wise or necessary. An indefinite growth in the debt, and in the cost of servicing it, must eventually undermine confidence in our currency and our national finances.

I think most Canadians will regard the policy we have followed as one of simple common sense. Yet some hon. members opposite have insisted that we should have been less prudent, that we should not have attempted to reduce our debt this year, that we should have borrowed to pay off refundable savings or to finance the recovery in our exchange reserves. While arguing that taxes should have been drastically lower, they have also been urging higher and higher expenditures on a bewildering variety of projects. I ask myself how anyone can take as serious and responsible criticisms of this kind. They ask us to believe that the people of Canada would have been better off this past year had taxes been substantially lower, and our debt substantially higher.

That is not the case. Large tax reductions last year would have come too early to be of real value to the public as a whole, because the public's expenditure, even without tax reductions, was large enough to buy everything available—indeed it was a bit too large, and buying pressure forced up the cost of living. Lower income taxes in 1948 would have meant a higher cost of living. Some might have gained, it is true—those whose incomes are high and whose concern with the cost of living is relatively small. But the general run of citizens and taxpayers would not have been farther ahead—they would have paid less to the public treasury but more to those private treasuries where the gains from a higher cost of living would have come to rest.

It was plain for all to see that the nation as a whole was fully employed last year. More spending would not have led to any significant increase in production. To have reduced taxes then in order to let people spend more would have been a delusion. It made far more sense to use the surplus income—surplus from the viewpoint of the nation as a whole—to pay off our debt and restore our essential reserves of gold and United States dollars. It is hard for the individual taxpayer to see it that way, naturally, because it is true that if he alone had more to spend and less to pay in taxes he would be better off. He does not realize that there would be two or three million others doing the same, and the competition between them is what causes trouble—is what feeds the inflationary spiral. We in parliament have to see the picture as a whole, and it is when we look at it as a whole that we see the common sense in the decisions we took here last year.

Let me turn now to the coming year. The total of the main estimates for next year, including statutory items and those to be voted, amounts to $2,217 million—a substantial increase over last year's estimates, reflecting mainly a considerable increase in the national defence program and also higher prices and rates of pay. We have also this year included in the main estimates a number of items of types which last year were more common in the supplementaries—not-

ably construction projects on which it is hoped to get started well before the fall and winter weather make this type of work more costly. To the main estimates will have to be added special estimates for Newfoundland which will probably exceed $50 million. We shall also have the usual supplementary estimates, although I do not expect they will be nearly as large as in this past year. I fear that we face again a deficit in the C.N.R. that will require a subsequent vote from parliament. It will also prove wise, I believe, to add further to our general reserve against the active assets on our balance sheet. All in all, I think I must budget in the expectation that total expenditures in 1949-50 may amount to about $2,390 million.

On the side of revenue, forecasting is as usual more difficult and uncertain, because our tax yields are now very sensitive to changes in economic conditions and the national income. On the basis of our present tax laws, and in the expectation that prices and production will hold to about their present levels with only normal seasonal changes, and that we have average crop yields this year, I now estimate that in the absence of any tax changes our revenues for the next fiscal year would amount in all to about $2,800 million.

The make-up of this total is given in a table, showing each of the major items in the forecast, together with the estimate for the year now closing. For the convenience of hon. members, I should like the consent of the house to have this incorporated in *Hansard* in the usual way without my taking time to read it.

Forecast of Revenue
(Before tax changes)

	Fiscal year 1949-50 (Forecast)	Actual Fiscal year 1948-49 (Preliminary)
	(in millions of dollars)	
Customs duties	235	225
Excise duties	210	206
Sales taxes (net)	385	378
Other excise taxes	260	259
Income taxes		
Individuals	835	771
Corporations	550	490
Interest, dividends, etc.	45	43
Excess profits taxes	...	40
Succession duties	26	26
Miscellaneous taxes	4	4
Total tax revenue	2,550	2,442
Non-tax revenue	200	210
Total ordinary revenue	2,750	2,652
Special receipts and credits	50	116
	2,800	2,768

From the figures I have given it is evident that in the absence of tax changes I would expect next year that our accounts would show a surplus of $410 million.

It is important, as in the case of the past year, to consider not only this budget surplus but also our prospective cash position, in order to appraise properly the outlook for next year. Eliminating non-cash revenues and expenditures, this budget surplus of $410 million might yield a surplus of available cash of about $500 million. To this we must add various receipts in pension and trust accounts and similar deferred liability accounts, which are likely to amount to nearly $150 million. This sum would probably exceed various loans and advances other than those to the foreign exchange control board and to governments abroad by as much as $25 million. Consequently in the absence of tax changes we might expect a cash surplus of about $525 million, reduced by whatever amounts may be required for financing our export surplus either by accumulating reserves or by foreign loans. It is still too early, with all the uncertainties of this present year to say, even roughly, what funds the government will have to find for financing our export surplus in one way or another.

TAX POLICY

What I have already said in commenting upon the economic situation, the results of last year, and the prospects for the new year, will already have indicated to you, Mr. Speaker, that I feel the time has now arrived when this parliament should enact some further substantial reductions in taxes. The increasing flow of goods available for sale to consumers without higher prices makes tax reductions economically feasible. The prospective surplus of revenue over expenditure, in the absence of tax changes, and even of a substantial cash surplus over our requirements for loans and investments, makes tax reduction financially feasible. The reduction of more than $1,600 million in our net debt made in the last three years has put us in a position now where we may prudently give consideration to further tax reduction. Finally, sir, I should say that I have been led to believe in recent months, as no doubt other hon. members have, that most of the Canadian people would support and even welcome an enlarged measure of tax reduction this year.

If this parliament should approve the program I am now going to propose, in addition to the tax reductions enacted following the

Ilsley budgets of October, 1945, and May, 1946, and following my budgets of June, 1947, and May, 1948, it will have carried through a program of tax reduction such as no parliament has ever made before, here or anywhere else I believe—and for more than most of us thought possible when we were elected following the victory in Europe in 1945. In approaching our task this year we should bear in mind that this is the continuation and rounding out of a program—not the beginning of a new policy. We have brought our high wartime taxes down by careful stages over a period of four years, and now we should aim at establishing a peacetime revenue system that may be varied up or down as the needs of the changing times require. We cannot complete this year all those improvements in the form and nature of our taxes that have been started in recent years, but we can carry them a long stage farther.

In selecting the fields for tax reduction we should bear in mind several general considerations. In the first place, we must recognize that most Canadians, like other peoples in recent years, have shown that they prefer to pay taxes in forms other than high income taxes. I think most of us believe the income tax on individuals is the fairest and best tax we have. The trouble is that we just don't like it, or at least we don't like too much of it. The public in peacetime will apparently only tolerate a level of income taxes that is far short of enough to yield the revenues that Canada requires now, and is going to require in years to come. Consequently we must plan on retaining as normal sources of revenue substantial taxes on goods and services, and taxes on corporate profits. In neither of these fields can we expect now to get back to the pre-war level of tax rates—at least not until the threats to peace disappear and the people cease to demand that the government carry out many of the types of services and transfer payments now being provided.

Consequently we face now, in addition to the problem of establishing a fair and proper schedule of income taxes, the need to adapt the form and nature of our taxes on goods and services and corporate profits to make them efficient, fair, and flexible sources of revenue, causing as little harm and irritation as possible for each dollar of revenue we must derive from them.

The second consideration relates more to the immediate future. The present economic situation is such that it is more appropriate this year to encourage increased expenditures by consumers, rather than capital expenditures by business. Business profits are already high, on the whole, and a large part of them is being devoted to capital expenditures. Markets for the goods and services required for additional capital expenditures by business are still relatively tight, and prices of machinery and equipment, and construction costs, are still very high. It would not be wise, I believe, to stimulate increased expenditures of this nature this year by general reductions in corporate taxation. On the other hand, there is, as I have already said, more opportunity now to satisfy increased expenditures by consumers. Consequently the principal tax reductions I am going to propose are those affecting individuals, both personal income taxes and taxes on things the consumer buys. I have, however, some important changes to propose in the distribution and nature of corporate taxes.

I propose now, Mr. Speaker, to state and explain our program of tax changes and tax reductions.

1. PERSONAL INCOME TAX

The house will recall that there have been three substantial reductions in income taxes since hostilities ceased. Late in 1945 there was a general reduction of 16 per cent. Effective January 1, 1947, there was a second reduction in rates and an increase in exemptions; and in mid-1947 there was a third general reduction in rates. Tonight I propose still further substantial reductions in this tax in the form of both reduced rates and increased exemptions.

The present basic exemptions are $750 for single persons and $1,500 for married persons. I propose that these be increased to $1,000 and $2,000 respectively.

The exemption in respect of children eligible for family allowance is now $100. I propose that this be increased to $150.

The exemption for other dependents which is now $300, will be raised to $400.

By these moves we shall return to pre-war levels of exemptions, and in so doing will relieve about three-quarters of a million present taxpayers of all income tax liability.

I also propose a downward adjustment in the rates of tax. The complete details of the new rates are contained in the budget resolutions, and with the consent of the house I should like to insert in *Hansard* at this point

the usual tables showing comparisons of the old and new taxes for single and for married persons at various income levels.

Present and Proposed Income Tax

Single Taxpayer

Income	1948 tax	1949 tax	Dollar reduction	Per-centage reduction
$	$	$	$	%
750....	..	..	..	..
800....	5	..	5	100
900....	16	..	16	100
1,000....	29	..	29	100
1,100....	44	15	29	66
1,200....	61	30	31	51
1,500....	120	75	45	38
1,800....	180	120	60	33
2,000....	220	150	70	32
2,250....	270	193	77	29
2,500....	320	235	85	27
2,750....	370	278	92	25
3,000....	420	320	100	24
3,500....	520	415	105	20
4,000....	620	510	110	18
5,000....	835	700	135	16
7,500....	1,465	1,270	195	14
10,000....	2,253	1,960	293	13
20,000....	6,515	5,960	555	9
30.000....	11,728	10,660	1,068	9
50,000....	23,456	21,814	1,642	7
75,000....	39,418	37,264	2,154	5
100,000....	56,631	53,714	2,917	5
200,000....	133,056	126,414	6,642	5

Note: In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total. No account has been taken of the new 10 per cent tax credit for dividends.

Present and Proposed Income Tax

Married Taxpayer—No Dependents

Income	1948 tax	1949 tax	Dollar reduction	Per-centage reduction
$	$	$	$	%
1,500....	..	..	..	..
2,000....	70	..	70	100
2,100....	90	15	75	83
2,300....	130	45	85	65
2,500....	170	75	95	56
2,750....	220	113	107	49
3,000....	270	150	120	44
3,500....	370	235	135	36
4,000....	470	320	150	32
5,000....	670	510	160	24
7,500....	1,260	1,030	230	18
10,000....	1,990	1,660	330	17
20,000....	6,140	5,510	630	10
30,000....	11,315	10,160	1,155	10
50,000....	23,043	21,264	1,779	8
75,000....	38,968	36,664	2,304	6
100,000....	56,143	53,064	3,079	5
200,000....	132,493	125,714	6,779	5

Note: In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total. No account has been taken of the new 10 per cent tax credit for dividends.

Present and Proposed Income Tax

Married Taxpayer with 2 Children of Family Allowance Age

Income	1948 tax	1949 tax	Dollar reduction	Per-centage reduction
$	$	$	$	%
1,700....	..	..	..	..
1,800....	10	..	10	100
2,300....	90	..	90	100
2,400....	110	15	95	86
2,500....	130	30	100	77
2,750....	180	68	112	62
3,000....	230	105	125	54
3,500....	330	184	146	44
4,000....	430	269	161	37
5,000....	630	453	177	28
7,500....	1,208	964	244	20
10,000....	1,930	1,582	348	18
20,000....	6,040	5,375	665	11
30,000....	11,205	10,010	1,195	11
50,000....	22,933	21,099	1,834	8
75,000....	38,848	36,484	2,364	6
100,000....	56,013	52,869	3,144	6
200,000....	132,343	125,504	6,839	5

Note: (1) The above figures show the actual income tax liability of a taxpayer with family allowance children, but in order to arrive at his true net position the amount of family allowance received for his children must be offset against his tax liability. For example, assuming he receives the average family allowance payment of $72.00 a child, a taxpayer with an income of $3,000 and two children would find that under present rates his income tax exceeded his family allowance by $86.00, while under the proposed rates his family allowance payments will exceed his income tax liability by $39.00.

(2) In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total. No account has been taken of the new 10 per cent tax credit for dividends.

In revising the rates of tax applicable to various income levels I have sought to achieve not only a reduction in rates, but also greater simplicity and greater equity. The two chief features of the new table of rates are first a large increase in the size of the first tax bracket to which the lowest rate of tax applies. Formerly this was a bracket of $100, now it is to be a bracket of $1,000. The second change in principle is to raise the point in the income curve at which the 50 per cent tax rate begins to operate.

Under the new table of rates three out of four persons who will still be paying tax will pay at a rate not exceeding 15 per cent on their income above the exemption level. No one will pay more than 15 per cent on any part of his income unless and until his income exceeds: $2,000 in the case of a single person; $3,000 in the case of a married person without dependents; and $3,300 for a married person with two children of family allowance age.

Let me give a few typical comparisons of the old and new rates.

A single person now paying $29 a year on an income of $1,000 will henceforth pay no tax whatever. A married person without dependents now paying $70 a year on an income of $2,000 will no longer have to pay any income tax. A married man with two children under 16 now pays $90 tax on $2,300 of income; henceforth he will pay no tax at all.

A single person at $1,500 will get a reduction of $45 or about 38 per cent; at $2,000 the reduction will be about $70 or 32 per cent; at $3,000 a reduction of $100 or 24 per cent; at $5,000 a reduction of $135 or 16 per cent; and at $10,000 a reduction of $293 or about 13 per cent.

In the case of married couples without children the reduction at $2,500 will be $95 or about 56 per cent; at $3,000 a reduction of $120 or 44 per cent; at $5,000 it will be $160 or about 24 per cent; at $10,000 it will be $330 or 17 per cent.

Comparison of the position of married couples with children of family allowance age is complicated by the necessity of taking the family allowance payments into account. All married taxpayers with two family allowance children having incomes of $2,300 or less henceforth will have no tax to pay and will, of course, receive the full amount of the family allowance payments. At $2,500 the amount of tax payable will be reduced from $130 to $30. If we offset family allowance payments against income tax such a family now receives on balance $14 a year from the treasury. In future they will, on balance, receive $114 from the treasury. At $3,000 this class of taxpayer, on balance, now pays $86 to the treasury; in future he will, on balance, receive $39 from the treasury. At $5,000 this same taxpayer will get a tax reduction of $177 or 28 per cent and at $10,000 a reduction of $348 or 18 per cent.

We propose, further, Mr. Speaker, that all these changes be effective as from January 1, 1949.

My colleague, the Minister of National Revenue, is expediting the preparation of new tax deduction tables for employers. These will be distributed as soon as available and employers are authorized to put them into effect immediately on receipt. It is expected that it will be possible to have the lower deductions in operation throughout the country within a few weeks. Furthermore, employers will be authorized to cease deductions immediately from those taxpayers no longer taxable under the new exemptions, and a table is being made public tonight showing the weekly or other pay period amounts below which employers need no longer make tax deductions. My colleague will immediately make arrangements in cooperation with employers to expedite the making of refunds to persons no longer taxable but who have had tax deducted at the source since the first of the year. This will be done as quickly as possible, but in view of the great number of refunds that will have to be made it will require some months to complete the job.

While most of the reductions resulting from the new exemptions and reduced rates accrue to the benefit of the lower and middle income groups, I have not been unmindful of those business and professional people earning somewhat higher incomes. I have had particularly in mind the point at which the taxpayer is required to surrender to the treasury 50 per cent or more of any additional earnings, and have raised it to a more reasonable level.

These are the major changes we are proposing in the personal income tax field. But there are a number of other proposed changes to which I should refer.

At present all investment income in excess of $1,800 bears an extra tax of 4 per cent. In keeping with the general increase in exemptions, this $1,800 exemption will be increased to $2,400 or to the total of the taxpayer's personal exemptions, whichever is the greater.

The present law requires that in determining the income of a dependent for eligibility purposes it is necessary to include income, such as war disability pensions, that is exempt from tax under the law. I propose that this requirement be removed. The effect of this change is that only income that would be taxable income will be taken into account.

With reference to permissible items under the medical expenses allowance, and in response to many individual representations, I propose to allow the cost of a wheelchair as a medical expense.

Under this same heading I also propose that the optional deduction of a flat amount of $500 now granted to a blind person be extended to persons confined throughout the taxation year to a bed or wheelchair.

Amendments will also be introduced confirming the exemption now granted to clergymen in respect of the rental value of a free residence provided by a congregation and in addition extending the exemption to

rent paid by a clergyman renting his own quarters where a free residence is not provided by the congregation.

In the case of interest penalties accruing on unpaid amounts of tax where the taxpayer has received no assessment notice it is now possible, in view of the greatly expedited assessment tempo in the income tax division, to reduce the period beyond which interest will cease to accrue from the present twenty months to twelve months.

I estimate that the net effect of all these reductions and amendments affecting personal income taxes will be a tax reduction in a full year amounting to $270 million or about 32 per cent of our total estimated revenue from this source. In the coming fiscal year, however, the loss of revenue to the treasury will be about $235 million, because part of the effects of the tax reductions in 1949 incomes will not be reflected in revenues until after March 31, 1950.

2. SUCCESSION DUTIES

In view of the very considerable relief granted in respect of succession duties last year, Mr. Speaker, I am proposing no change in the Succession Duties Act this year. It will be recalled that my last budget provided for the complete exemption of estates up to $50,000 from liability for federal succession duties, and removed the ceiling on the amount of gifts that may be made for charitable or educational purposes free of succession duty.

3. CORPORATION TAXES

I have several important proposals to announce relating to the corporate tax field. In last year's budget we undertook a successful general overhaul and consolidation of the Income Tax Act. Within this new framework I am now bringing forward a program of policy changes as part of the progressive improvement of our tax system.

At present we have a flat rate tax of 30 percent on all corporate profits. I am recommending that this 30 per cent be reduced to 10 per cent on profits up to $10,000 and increased to 33 per cent on profits in excess of $10,000. The house will at once recognize this as tax relief for small businesses and will, I trust, be heartily in accord with the policy. Our country as a whole owes a great deal to the small family type of business. They have to struggle along, grow and develop in competition with large and well financed corporations whose activities may be nation-wide. My own belief is that small businesses should be encouraged and it seems to me that a useful way to do this is to lower the tax and take less out of the funds they need for growth and expansion.

All corporations, regardless of size, will, of course, receive this relief on the first $10,000 of profits but, as I have said, the rate of tax on profits in excess of this figure will be increased by 3 per cent. The net result of these changes is a decrease in tax burden for corporations whose profit is less than about $77,000; that is, the large reduction on the first $10,000 of profit more than offsets the slight increase in the rate on profits between $10,000 and $77,000. Where profits are in excess of $77,000 there is a greater tax under the new rate structure payable by the corporation itself, but in the light of my next proposal it will be seen that this additional tax may be more than offset by benefits to the shareholders if the corporation distributes a reasonable proportion of its profits.

My second proposal introduces a measure of reform which has long been a declared objective of this government. I refer to the removal of double taxation of corporate profits, which was one of the aims of the program we placed before the dominion-provincial conference in 1945-46. Today we find governments in this country, as well as in most other countries, taxing away at least a third of corporate profits. In addition, the personal income tax rates apply in full to what is distributed out of the remaining two-thirds. The tax may be as high as 80 per cent upon distributions to shareholders. It seems to me that under a system of private enterprise which depends for its existence on a steady flow of venture capital we cannot afford to neglect the implication of this defect in our tax system, which has been accentuated by the increase in both corporate and personal income tax rates. We had hopes that the working out of satisfactory arrangements with all the provinces would have enabled us to deal with this problem before now, but the government feels that it cannot longer defer a beginning in this field. It is not a question of the immediate profit position of Canadian business because I think it is clear that today we in Canada are prosperous as never before. Rather it is a matter of concern for the future under a system where we depend, and must depend, for full employment and the creation of new wealth on the willingness of our people to risk their money in constructive enterprises.

As a first step in dealing with this problem I am proposing that parliament should allow individuals a credit against their personal income tax equal to 10 per cent of the dividends they receive from common shares of Canadian taxpaying corporations. While I have used the expression "common" shares, the law will actually confine the credit to the most junior class of shareholders of a company, and it will not be granted in

respect of shares that enjoy any special preference. Generally speaking, the incidence of the corporate tax is upon the common shareholders, and I believe that they rather than preferred shareholders should be granted such relief as can be given at this time.

In discussing the increase in the general corporate rate by 3 per cent I said that this meant an increase in tax burden for the corporation itself where profits were above the $77,000 mark. The fact is, however, that if the corporation distributes more than about one-half of its profits after tax in dividends in respect of which the shareholders get a 10 per cent tax credit, there will have been a net decrease in the tax burden over-all from the point of view of the corporation and the shareholders considered together, that is, the corporate rate increase is more than offset by the decrease in tax for the shareholder in all cases where there is a reasonable distribution of profits. I should like to call particular attention now to the fact that as a result of the low corporate rate of 10 per cent coupled with the 10 per cent tax credit this budget removes completely double taxation on small businesses where profits are less than $10,000.

A further proposal affecting the taxation of profits is that the loss carry-forward period be lengthened to five years instead of the present three-year limit.

During the past year a great deal of study has been given to our system of allowances for depreciation. The problems in this field are highly technical, and I cannot in this speech enter into much detail regarding changes which are to be made. I shall, however, state briefly what they are, and a full explanation of them will be given when we are in committee on the budget resolutions.

In the past allowances have been granted on the basis of wear and tear of assets used in earning the income subject to tax. Under the new regulations which my colleague the Minister of National Revenue is proposing, the governing principle will be the amortization of costs of depreciable assets. Incidentally, an effect of this will be to allow for obsolence hitherto unrecognized under our act. In the second place the rates of write-off will apply to the written-down value of the asset account rather than to the total asset account. In the technical language of the accountant this means changing from the straight-line method of depreciation to the diminishing balance principle. Of course the rates of depreciation will be appropriately increased having regard to the diminishing base to which they apply. Thirdly, it is proposed to introduce what might loosely be described as a recapture provision. This provision will operate to ensure in effect that the deductions for amortizing the cost of an asset shall not exceed the final proven cost of the asset to the taxpayer. It will call for an adjustment against future write-offs where assets are disposed of after some use. I might add here that the so-called add-back or adjustment will be limited to the written-down value at the end of 1948 regardless of the price realized on disposal of assets in order that there can be no possible claim that under this provision capital gains are being taxed, or that this recapture provision has any retroactive effect.

I believe that these principles which I have outlined will mean a great improvement over the old system and will be a further step towards greater simplicity in our system of taxing business profits. There should be a real reduction in the accounting work both for business concerns and the tax department as well. The system will likewise be more equitable to the taxpayer and to the treasury. I shall welcome a full discussion of these recommendations.

Another problem that has been given a great deal of study in my department and the Department of National Revenue during the past year is the difficult position that many family businesses may find themselves in when their growth has been financed by the plowing back of profits over a long series of years. At present, on winding up, the distribution of assets to the extent of undistributed income on hand becomes taxable in the hands of the recipient at personal income tax rates in the year in which the assets are distributed. So severe is the application of our present law in such cases that many such businesses have been driven into a great variety of extremely complicated and cumbersome devices to secure legal avoidance of the excessive tax burden to which they are now potentially liable. As a result we are losing revenue to which we think the public treasury has a justifiable claim.

The problem is an extremely difficult one and I think it fair to say that there has not been much unanimity of view among those who have studied it as to the most equitable and practicable solution. We have been considering a plan under which a straight percentage tax paid by such a corporation at the time of winding up or at the time of capitalization of earned surplus will relieve the earned surplus of tax liability in the hands of the eventual recipient. Whether this would be equitable and, if so, what the flat tax should be, are questions which require the most careful consideration. I am not

prepared to make specific proposals for enactment at this session of parliament. I hope that there may be an opportunity of having a plan of the type mentioned discussed when we are in committee.

In addition to the major adjustments in the corporation tax structure outlined a few minutes ago I am proposing some comparatively minor amendments affecting corporations.

I propose that the allowances now granted for expenditures on oil, mineral and gas exploration be extended for a further period of three years, that is, for 1950, 1951 and 1952. The present law now provides for deductions only in respect of expenses incurred to the end of 1949. The extra tax credit granted in the case of expenditures on deep test wells will be extended for one year, that is, to the end of 1950. Also the three-year tax exemption for new metalliferous and certain industrial mineral mines will be extended to cover such mines that come into production in 1950, 1951 and 1952.

There will be several amendments introduced affecting companies having business operations abroad. The more important of these will remove a complicated procedure by which corporations having controlled subsidiaries abroad are now allowed to claim a tax credit against their Canadian tax for taxes paid by these subsidiaries abroad and in some cases by companies which are in turn subsidiaries of the foreign subsidiary. In view of the fact that most countries in which Canadian companies are now doing business abroad impose corporation taxes as heavy or heavier than the Canadian tax, the effect of the present tax credit provisions is that no Canadian tax is imposed on this income. The procedure for attaining this result, however, is extremely complicated and it is proposed that the same result be achieved by an amendment which would allow dividends from such controlled foreign subsidiaries to be taken into Canadian income free of tax. This will greatly simplify one small but very complicated provision of the law at no appreciable cost in revenue.

A group of other miscellaneous amendments, mostly technical in nature, will be contained in the bill. They are not of general interest to the public so I shall not burden the house with the details at this time.

In concluding this discussion of corporation taxes, I estimate that all the proposals I have made, including the tax credit for dividends, will on balance result in no loss to the treasury. The three per cent increase in the general corporate tax rate will, in effect, enable the other changes to be made without any net loss of revenue.

4. TARIFFS AND TRADE

Before taking up excise taxes and duties, I want to say something about tariffs and trade.

I have already discussed the major changes which took place in Canada's foreign trade position during the past year. The record reflects both the difficulties which some of our exports have encountered, and the large degree of success with which Canadian exporters and the Canadian government, working together, have sought out and developed alternative markets when traditional markets were closed to us. It must be regarded as a major achievement that Canadian exports reached a new peacetime record in 1948. This result is all the more remarkable when we consider that United States exports in the same period fell by nearly 18 per cent.

Chief credit for this achievement belongs to Canadian producers whose energy and resourcefulness made the right goods available for export at the right prices. But the government's achievements in reducing trade barriers and developing new trade opportunities contributed greatly to the maintenance and expansion of our trade.

The increase which took place in our total exports, and particularly the 44 per cent growth which took place in our exports to the United States, would not have been possible without the tariff concessions which we obtained under the Geneva agreement on tariffs and trade.

As I mentioned in my budget speech last year, most of the tariff reductions agreed upon at Geneva became provisionally effective on January 1, 1948. The first year's results are apparent from the trade figures which I have mentioned. These results, in my opinion, provide a strong endorsement of the policies which this government has followed in the field of international trade.

As hon. members know, trade negotiations with 13 additional countries are to commence at Annecy next month. As a result of these negotiations, the mutually beneficial concessions negotiated at Geneva will, it is confidentially expected, become applicable both to a wider circle of countries and to a broader range of commodities. As hon. members know, the legislation for the extension of the United States Reciprocal Trade Agreements Act is now before the Congress. When this legislation is passed, we will have the opportunity to seek a further trade agreement with that country. We would hope that it may be possible to conclude a further agreement similar to the three entered into in the past under that legislation, but one which would also open up wider possibilities for our exports of manufactured goods.

In view of the pending tariff negotiations at Annecy and other trade discussions which are envisaged, and in view also of the intention to introduce legislation at a later date to implement the general agreement on tariffs and trade, I am not proposing any tariff changes at the present time. For the same reasons the government does not intend to invite parliament to extend the special temporary provisions regarding the duties on cotton and rayon piece goods. These will expire July 1, 1949 in accordance with the legislation passed by parliament last year.

During the past 16 months we have had in effect certain emergency restrictions on imports into Canada. These restrictions have been an important factor in achieving the notable improvement which has taken place in our foreign exchange reserve position. When these emergency restrictions were introduced I stated that they would be relaxed or removed as rapidly as possible. Some relaxations have already been made, but the time has not yet come when these exchange conservation measures can be dropped entirely. Canada's foreign exchange reserves are still not as large as we would like them to be under present circumstances. A further increase is necessary if we are to face future uncertainties with confidence. However, the improvement which has taken place in our balance of payments justifies some further relaxations at this time.

After a careful appraisal of the situation, the government has decided to increase the present quotas on consumer goods listed in schedule II of The Emergency Exchange Conservation Act by approximately 25 per cent. In addition some items will be transferred from the prohibited list to the quota list as of April first, and on a few other items the restrictions will be suspended completely. As I announced last December, it is the government's intention to remove all the remaining import restrictions on fresh fruits and vegetables by next July. Complete details of these new relaxations are the subject of a statement, a copy of which I am now tabling.

At this time I wish to emphasize that it is still an important aspect of the emergency exchange conservation policy to facilitate the efforts of United Kingdom exporters to regain as much as possible of their historic share of the Canadian import market which they inevitably lost during the war years. This is particularly so in the case of cotton piece goods, which is the field where the greatest change between pre-war and post-war sources of supply occurred.

While United Kingdom cotton textile exports to Canada in 1948 did not reach the levels that we had hoped to see achieved, there was an encouraging improvement. The yardage of United Kingdom cotton goods exported to Canada in 1948 was more than four times that of 1947. We believe that Canada offers a sound long-term market for still larger quantities of United Kingdom cotton piece goods than are coming here now.

The quota applicable to textiles from scheduled countries is to be increased somewhat in the interests of Canadian users, but the continued operation of this quota will still give a strong incentive for further expansion in Canadian purchases of British textiles. It is to be earnestly hoped that both Canadian importers and United Kingdom exporters in their mutual long-run interests will continue to make every effort to consolidate and expand this trade on a sound business basis.

The Canadian government has taken and will continue to take all feasible steps to encourage the expansion of British trade with Canada. We are keenly aware that we must buy from our customers if we are to continue to sell to them. However, we cannot solve this problem alone. We have provided opportunities and created incentives for the purchase of British goods. It is up to British exporters and the British authorities to take advantage of these oportunities and to see that their goods are made available for export to Canada at prices which our consumers can afford to pay.

The most important lines of British exports to Canada have been greatly assisted, and are continuing to be assisted, by the operation of quotas under The Emergency Exchange Conservation Act. These quotas restrict competitive imports from the United States, and give British producers preferred access to their pre-war share of the Canadian market. This is one of many steps which have been taken in applying the Canadian government's policy of using every practicable measure to encourage imports from the United Kingdom.

Early in the war Canada granted a 50 per cent discount from the normal preferential duties to a wide range of British goods. The duties on British cottons and rayons were entirely removed. Moreover, these wartime tariff reductions were maintained in effect until January 1, 1948, when they were replaced by the reduced tariff rates negotiated at Geneva.

In order to remove any possible obstacle to British trade arising out of our anti-dumping legislation I introduced last year an amendment to the dumping provisions of the customs tariff. Under authority of this amendment several important classes of goods, which might otherwise have been subject to

dumping duty when imported from Britain, have been declared exempt. Measures such as these, together with the special efforts of the Department of Trade and Commerce and its commercial representatives in the United Kingdom to stimulate the interest of British exporters in the Canadian market, are playing a constructive part in expanding British sales in this country.

The government of Canada has made repeated requests at the very highest level that authorities in the United Kingdom and other Commonwealth countries do all that they can to take advantage of the favourable opportunities which Canada has offered for their exports. The Canadian government has also made it clear that it does not look with favour on purchasing arrangements or bilateral trade deals which tend to divert away from Canada either British or colonial products which otherwise could be sent here, particularly in cases where we have established and are maintaining substantial tariff preferences in favour of such goods.

Canadian import statistics which I quoted earlier make it clear that the efforts made both here and in Britain to enlarge Canada's purchases from the United Kingdom are bearing fruit. British export figures offer confirmation, if any is required. They show that the United Kingdom's exports to all countries increased substantially in 1948, and that its exports to Canada increased even more. The value of United Kingdom exports to all countries was 39 per cent higher in 1948 than in 1947. In the same period its exports to Canada increased 60 per cent. It will be agreed that this is a large and encouraging increase. I sincerely hope that this trend will be continued and thus provide a sound basis for the maintenance of our important export markets in the United Kingdom.

5. EXCISE TAXES AND EXCISE DUTIES

Under the exigencies of wartime finance we were compelled in our search for revenue to get into a rather complicated structure of commodity taxes. In addition to the traditional taxes on beer, wine, spirits and tobacco, and the general sales tax, we developed a great variety of taxes. These were necessary, indeed indispensable, taxes at the time; but they varied considerably as to rates, as to point of imposition, and as to method of collection.

We cannot afford to forgo most of the revenue these taxes provide, but in my judgment the time has come for a major job of simplification in this superstructure combined with substantial reductions in the number we propose shall be entirely repealed.

I shall begin by listing those taxes which and the rates of these newer taxes.

First, there is the tax of 15 per cent on all travel tickets by air, land or sea, and special taxes on sleeping car berths and parlour car chairs. This tax has been a considerable burden in a country like Canada where distances are so great, and it bears somewhat more heavily on people living at greater distances from the main centres of business and industry. We propose that these taxes be repealed effective midnight tonight. The revenue from these taxes has been $22 million a year.

Closely related to the transportation taxes are those on telegrams, cables, long distance telephone calls and extension telephones. These also bear disproportionately on those living at greater distances from the main centres of business, and in addition they mean added expense to individuals at times of family emergency. It is proposed to repeal all these taxes effective tonight. The revenue reduction will be $7,500,000.

In the third place, the special taxes on soft drinks, carbonic acid gas, candy and chewing gum have never been popular, and administratively they have not been easy to collect. They have, however, been highly productive of revenue at a time when revenue was badly needed. In the year now closing they have yielded more than $49 million. They seem to have been among the least popular of all the so-called "nuisance taxes", and we have come to the conclusion that they can go. It is proposed, therefore, to repeal these also, effective midnight tonight.

Finally, there is one other excise tax that is proposed for outright repeal and that is the special 5 per cent tax on the manufacturer's selling price of buses. This is not a large revenue producer—last year it gave us only $150,000. No other form of public transit equipment bears such a tax, and its disappearance will be a modest benefit to municipalities who operate bus transportation systems.

These are the taxes which we propose for outright and immediate repeal. The total tax reduction involved is approximately $79 million in a full year, and about $69 million in the coming fiscal year.

I turn now to another group of special taxes in respect of which I propose simplification of procedure and reduction in rates effective midnight tonight.

I shall mention first the 25 per cent retail purchase tax on jewelry and related articles. This is the only tax in our whole system that is levied and applied at the retail level. At the time it was imposed, and having regard to the revenue then desired, there were sound reasons for putting it at the retail level; but in line with the simplification of our tax structure, the pattern of which will appear as I continue my speech, we propose that the tax be moved back from the retail level to

the manufacturer's level, and that the rate be reduced to 10 per cent effective immediately. The existing exemptions to this tax will continue. The net tax reduction in this case is estimated to be $8 million a year.

In much the same class I put the present 35 per cent tax on the manufacturer's selling price of luggage, bags, purses, fountain pens and pencils and desk sets, and smokers' accessories; and the 25 per cent tax on cigarette lighters. We propose that all these taxes be reduced to 10 per cent at the manufacturer's level. This will involve a tax reduction of $5,800,000 a year.

Similarly it is proposed to reduce from 25 per cent to 10 per cent the tax on cosmetics, toilet articles and preparations, with a consequent tax reduction of $4 million a year.

The present tax structure on matches is a rather complicated schedule based on the number of matches in the box or package. We propose to repeal this whole schedule, and to substitute a straight 10 per cent ad valorem tax. This will mean a tax reduction of $2 million a year.

Rubber tires and inner tubes (but not including original equipment tires) are now subject to a tax of 5 cents a pound. It seems to me that this is both cumbersome and complicated. We propose, therefore, to repeal this poundage tax, and put these tires and tubes into the 10 per cent ad valorem group. No change in revenue yield is expected.

Finally, there is a tax, of minor revenue significance, of 25 per cent on coin-operated games and vending machines. This, too, will be reduced to 10 per cent.

The reductions in tax revenues as a result of all these shifts to this new 10 per cent rate will be about $20 million in a full year and about $17 million in the next fiscal year. Added to the reductions in the repealed items, this makes a total reduction in excise taxes of $99 million in a full year, and $86 million in the coming fiscal year.

I am not proposing any changes in the taxes or duties on liquor and tobacco or in the general sales tax rate.

As usual I must give public notice that no claims for refund arising out of these tax repeals and tax reductions in respect of goods on which tax has been paid or is payable will be entertained by my colleague, the Minister of National Revenue.

With these changes in effect our excise tax structure will be very much simpler and will be available to serve the people of this country as an efficient, equitable and flexible instrument of raising the revenues which are necessary to pay for the services which are now demanded of the federal government.

Let me recapitulate the substance of this commodity tax structure as it will now be.

First, the taxes at special and very high rates on beer, wine, spirits and tobacco.

Second, the general sales tax.

And third, a new group, or more accurately an enlarged group, where a 10 per cent tax in addition to the sales tax is imposed. The list will include such things as radios, phonographs, motorcars, jewelry, furs, cosmetics, luggage, purses, handbags, smoker's accessories, and so on.

This will provide a commodity tax system in which adjustments to varying fiscal requirements can be made by adding or subtracting from the list of goods covered, or by raising or lowering the general rates applicable.

Quite apart from the details of items and rates I commend it to all members of the house as constituting a very long step toward the desirable objective of a coherent and simple, yet efficient and flexible tax system.

CONCLUSION

I can now summarize the net effects of all the tax changes I have proposed by saying that they will produce an estimated total reduction in taxation of $369 million in a full year and about $323 million in the next fiscal year. With the permission of the house I should like to insert in *Hansard* a recapitulation in tabular form:

Effect on Revenue of Proposed Tax Changes

	Reduction in full Year	Reduction in Fiscal Year 1949-50
Personal Income Tax	$	$
Increased exemptions and reduced rates	270,000,000	235,000,000
Ten per cent tax credit for dividends	12,000,000	9,000,000
Corporate Income Tax		
Net increase in revenue from rate changes	+12,000,000	+8,000,000
Excise Taxes Repealed		
Soft drinks	28,000,000	24,500,000
Candy	19,000,000	16,625,000
Chewing gum	2,000,000	1,750,000
Transportation tickets	20,500,000	17,950,000
Berth and parlor car seats	1,500,000	1,325,000
Long distance calls, telegrams and cables	7,500,000	6,550,000
Transportation buses	150,000	130,000
Carbonic acid gas	350,000	300,000
Excise Taxes reduced to 10 per cent		
Retail purchase tax	8,000,000	7,000,000
Toilet articles	4,000,000	3,500,000
Luggage	4,000,000	3,500,000
Matches	2,000,000	1,750,000
Smokers' supplies	600,000	525,000
Pens and pencils	1,000,000	875,000
Cigarette lighters	250,000	220,000
Total	$368,850,000	$322,500,000

You will recall, Mr. Speaker, that at an earlier point in this speech I estimated that the present rates of taxation would yield us a revenue of $2,800 million in the coming fiscal year. After making allowance for tax reduction amounting to about $323 million on the basis of the fiscal year, my revised estimate of revenue for the year will be $2,477 million. With the permission of the house I will place on *Hansard* a table showing the revised revenue forecast in detail after taking account of the tax changes.

Revised Forecast of Revenue for Fiscal Year 1949-50
Taking Account of Tax Changes

	Forecast of revenue from existing taxes	Reduction in revenue in fiscal year 1949-50 from budget proposals	Revised forecast of revenue for 1949-50
	$	$	$
Customs duties	235,000,000	....	235,000,000
Excise duties	210,000,000	....	210,000,000
Sales tax (net)	385,000,000	....	385,000,000
Other excise taxes	260,000,000	86,500,000	173,500,000
Personal income tax	835,000,000	244,000,000	591,000,000
Corporation income tax	550,000,000	+8,000,000	558,000,000
Interest and dividends	45,000,000	....	45,000,000
Succession duties	26,000,000	....	26,000,000
Misc. taxes	4,000,000	....	4,000,000
Total tax revenue	2,550,000,000	322,500,000	2,227,500,000
Non tax revenue	200,000,000	....	200,000,000
Total ordinary revenue	2,750,000,000	322,500,000	2,427,500,000
Special receipts	50,000,000	....	50,000,000
Total revenue	2,800,000,000	322,500,000	2,477,500,000

I said earlier that before making any tax reduction it was estimated that we would have a budget surplus of $410 million in the coming year. I have now proposed that $323 million of this be translated into tax reductions, which means that I am budgeting for a surplus of $87 million. This $87 million is a modest, I could almost say a nominal, budget surplus for it represents less than 3½ per cent of our expenditures.

I repeat, and I emphasize, Mr. Speaker, that all these estimates of revenue and surplus are based on the assumption that current rates of employment, production and incomes will, on the average, be maintained during the coming year. Should this expectation not be realized, our budget surplus of $87 million could rapidly melt away.

A budget surplus of $87 million will mean a reduction in our net debt by that amount. This reduction may take place either as a result of an increase in our active assets by a reduction in our outstanding debt or by both. It is more difficult than usual to forecast what our cash surplus will be in this coming year, because of the rapid changes that have been taking place in our foreign trade situation and the difficulty of foretelling now what cash the government will need to use in financing Canada's export surplus. Earlier I stated that in the absence of tax changes we could expect to have a cash surplus of $525 million next year, apart from the amounts required to finance our export surplus either by accumulating exchange reserves or making credits. The tax changes will reduce this figure to $202 million. I would hope that we shall succeed in selling enough abroad that our export surplus will be larger than this figure, and that we shall be able to bring our reserves up to a more satisfactory level. Should things develop this way and if, therefore, we need more than $202 million for this purpose, I think it would be the sort of situation that would justify us under present circumstances in borrowing our residual cash requirements.

This, Mr. Speaker, is the third budget that I have had the responsibility of presenting to this house, and the seventh in the preparation of which I have had some part. I take a good deal of personal pride in having been associated with the framing of Canada's economic and financial policy throughout these seven years. Wherever you go outside Canada, and almost everywhere you go within Canada, you find in the minds of those who know the record, a clear appreciation of the fact that the Canadian achievements in matters of economic and financial policy during and since the war rank second only to Canada's fighting record on land, on sea and in the air. We have been fortunate, it is true, but we have also, I think, been skilful, intelligent and prudent in the management of our affairs.

Before I take my seat may I summarize in a few short sentences the financial record of this Liberal government during the life of this present parliament.

In October 1945 we provided tax reductions of $300 million a year.

In June 1946 we provided tax reductions of $266 million a year.

In April 1947 we provided tax reductions of $265 million a year.

In the 1947-48 session we provided tax reductions of $92 million a year.

And now in March, 1949, we are providing tax reductions of $369 million a year.

In these five successive budgets we have made tax reductions which now mount up to nearly $1,300 million a year.

During the past three years we have reduced our net debt by $1,625 million.

During the life of this parliament we have extended social security, improved our health

services, and have provided training, re-establishment credits and other benefits to our ex-servicemen on a scale more generous than that of any other country. We have greatly expanded our activities in research, exploration and surveys. And throughout the last four years the increase in employment, in wages, in farm incomes, and in general prosperity has never faltered. I know of no country in the world which can show a better record, or in which I would rather live.

I want to table now the budget resolutions.

THE EXCISE TAX ACT

Resolved that it is expedient to introduce a measure to amend The Excise Tax Act and to provide, effective on and after March 23, 1949:

1. That the following excise taxes be repealed, namely, the excise taxes on:

(a) Soft drinks;
(b) Chocolate, candy, and confectionery;
(c) Chewing gum;
(d) Cable, telegraph, and telephone messages, and on telephone extensions;
(e) Transportation tickets or rights of transportation, and on seats, berths, or other sleeping accommodation;
(f) Motor buses; and
(g) Carbonic acid gas.

2. That the retail purchase tax be repealed and replaced by an excise tax of 10 per cent, payable by the manufacturer or importer, on all articles now subject to the retail purchase tax.

3. That the following excise taxes be reduced from 35 per cent to 10 per cent, namely, the excise taxes on:

(a) Trunks, suitcases, bags, and luggage of all kinds;
(b) Ash trays, tobacco pipes, and smokers' accessories; and
(c) Fountain pens, propelling pencils, and desk accessories.

4. That the following excise taxes be reduced from 25 per cent to 10 per cent, namely, the excise taxes on:

(a) Toilet articles;
(b) Devices commonly or commercially known as lighters; and
(c) Coin, disc, or token operated machines and vending machines.

5. That the sales tax on the following articles be repealed: Lactose; malt syrup except when sold for beverage purposes; diesel powered self-propelled trucks, mounted on rubber tired wheels, for off highway use exclusively at mines or quarries, and complete parts thereof.

6. That the rates of excise tax on matches be amended from the present specific proportionate rate of tax on each package, to an ad valorem tax of 10 per cent.

7. That the present specific tax of 5c per pound on tires and tubes be amended to an ad valorem tax of 10 per cent.

INCOME TAX

Resolved that it is expedient to amend the Income War Tax Act and the Income Tax Act and to provide, amongst other things:—

1. That, for the 1949 and subsequent taxation years, the following shall be the exemptions from individual income tax:—

(a) $2,000 in the case of a married person and persons allowed a deduction equivalent to that of a married person and $1,000 in the case of all other persons; and

(b) $400 in the case of dependents not eligible for family allowances, $150 in the case of children eligible for family allowances.

2. That, for the 1949 and subsequent taxation years, the schedule of graduated rates for individual income tax be replaced by the following schedule:—

On the first $1,000 of income or any portion thereof, 15 per cent per annum; or

$150 upon the income of $1,000; and 17 per cent upon the amount by which the income exceeds $1,000 and does not exceed $2,000; or

$320 upon the income of $2,000; and 19 per cent upon the amount by which the income exceeds $2,000 and does not exceed $4,000; or

$700 upon the income of $4,000; and 22 per cent upon the amount by which the income exceeds $4,000 and does not exceed $6,000; or

$1,140 upon the income of $6,000; and 26 per cent upon the amount by which the income exceeds $6,000 and does not exceed $8,000; or

$1,660 upon the income of $8,000; and 30 per cent upon the amount by which the income exceeds $8,000 and does not exceed $10,000; or

$2,260 upon the income of $10,000; and 35 per cent upon the amount by which the income exceeds $10,000 and does not exceed $12,000; or

$2,960 upon the income of $12,000; and 40 per cent upon the amount by which the income exceeds $12,000 and does not exceed $15,000; or

$4,160 upon the income of $15,000; and 45 per cent upon the amount by which the income exceeds $15,000 and does not exceed $25,000; or

$8,660 upon the income of $25,000; and 50 per cent upon the amount by which the income exceeds $25,000 and does not exceed $40,000; or

$16,160 upon the income of $40,000; and 55 per cent upon the amount by which the income exceeds $40,000 and does not exceed $60,000; or

$27,160 upon the income of $60,000; and 60 per cent upon the amount by which the income exceeds $60,000 and does not exceed $90,000; or

$45,160 upon the income of $90,000; and 65 per cent upon the amount by which the income exceeds $90,000 and does not exceed $125,000; or

$67,910 upon the income of $125,000; and 70 per cent upon the amount by which the income exceeds $125,000 and does not exceed $225,000; or

$137,910 upon the income of $225,000; and 75 per cent upon the amount by which the income exceeds $225,000 and does not exceed $400,000; or

$269,160 upon the income of $400,000; and 80 per cent upon the amount by which the income exceeds $400,000.

3. That, for the 1949 and subsequent taxation years, there may be deducted from tax payable by an individual resident in Canada 10 per cent of the amount of his income that is from dividends on shares, having no preference of any kind, in a corporation resident in Canada that was liable to corporation tax in the taxation year: Provided that in the case of dividends deemed to have been received from a personal corporation the deduction shall only be 10 per cent of that part of the income deemed to have been received by the shareholder as a dividend that the income of the corporation derived from dividends is of the whole income of the corporation.

4. That, with respect to income of corporations earned on and after January 1, 1949; the present rate of tax of 30 per cent shall be reduced to 10 per cent on the first $10,000 of income and increased to 33 per cent on income in excess of $10,000 with corresponding changes in the rates in the case of consolidations.

5. That interest on unpaid taxes on incomes of the 1948 and subsequent taxation years for which

no assessments have been issued will cease to accrue twelve months after the date for filing the return in place of twenty months.

6. That, for the 1949 and subsequent taxation years, the business losses that may be deducted from income shall include losses sustained in the five years preceding and the year following the taxation year in the place of the three years preceding and the year following the taxation year.

7. That, for the purpose of computing income of the 1948 and subsequent taxation years of a member of the clergy or of a religious order or a regular minister of a religious denomination there may be deducted the value of the residence or other living accommodation enjoyed by him as such member or minister to the extent that it would otherwise be included in his income or the rent paid by him for or the fair rental value of such a residence or living accommodation.

8. That, for the 1949 and subsequent taxation years, the exemption from income of an individual in respect of a spouse supported by him shall not be reduced because of exempt income of the spouse.

9. That, for the 1949 and subsequent taxation years, all amounts whether in the form of lump sums or otherwise, received by employees from their employers, whether before, during or after their employment, shall be included in computing income of the employee unless it is established that they cannot reasonably be regarded as consideration for entry into the employment, remuneration for services or consideration for restrictions on the activities of the employee.

10. That, for the 1949 and subsequent taxation years, payments made for a wheel chair may be included in the medical expenses for which a deduction from income may be made for the purpose of computing taxable income.

11. That, for the 1949 and subsequent taxation years, $500 may be deducted from income for the purpose of computing taxable income of a taxpayer who, throughout the whole of the taxation year, was necessarily confined by reason of illness, injury or affliction to a bed or wheel chair.

12. That special deductions from income to taxpayers engaged in exploring or drilling for natural gas, oil or minerals be allowed for expenses incurred in the 1950, 1951, and 1952 operations on the same basis as for expenses in 1949 operations.

13. That special deduction from taxes to taxpayers engaged in exploring or drilling for oil for expenses incurred on deep-test oil wells be allowed for such expenses in 1950 operations on the same basis as for such expenses in 1949 operations.

14. That the provision for the exemption of income derived from a metalliferous or industrial mineral mine that came into production during the calendar years 1946 to 1949 inclusive during the period of thirty-six months after the mine came into production be extended to exempt income from such mines that come into production during the calendar years 1950, 1951, and 1952.

15. That tax concessions under Statutes of Newfoundland shall not apply in respect of taxes imposed by any Act of the Parliament of Canada.

APPENDIX

TO

THE BUDGET, 1949-50

Budget Papers presented by the
Honourable D. C. Abbott, M.P., for the
information of Parliament on the occasion of the
Budget of 1949-50

FOREWORD

The purpose of this Appendix is twofold:

(1) to make available in one place and in convenient form, as a supplement to the Budget, some of the more comprehensive economic statistics prepared by the Dominion Bureau of Statistics and other Government agencies;

(2) to present a preliminary review of the Government accounts for the fiscal year ending on March 31, 1949.

PART I

TABLES OF ECONOMIC STATISTICS

These tables were selected or designed to provide a broad factual background to assist in the analysis of the Budget accounts and proposals from an economic point of view. The principal source is the Dominion Bureau of Statistics.

The tables are grouped as follows:

National Income, Expenditure and Employment—

1. National Income and Gross National Product.
2. Gross National Expenditure.
3. Government Expenditure on Goods and Services as Percentage of Gross National Expenditure.
4. Estimated Canadian Labour Force and Employment.

Personal Income and Its Disposition—

5. Sources of Personal Income.
6. Disposition of Personal Income.
7. Personal Saving and Spending.
8. Personal Disposable Income Per Capita.

Saving and Investment—

9. Sources of Private Saving.
10. Disposition of Private Saving.
11. Corporation Profits and Corporate Saving.
12. Gross Home Investment.

Revenue and Expenditure of All Governments—

13. Government Transactions Related to the National Accounts.

International Payments and Exchange Reserves—

14. Canada's Net Balance of International Payments on Current Account.
15. Summary of Canada's Net Balance of International Payments on Current Account and Related Changes on Capital Account.
16. Holdings of Gold and U.S. Dollars.

Other Economic Indicators—

17. Physical Volume of Industrial Production.
18. Agricultural Production.
19. Index Numbers of the Cost of Living.
20. Money Supply and Related Bank Assets.

Each group is prefaced by a brief explanation; each table is followed by a brief comment.

NATIONAL INCOME, EXPENDITURE AND EMPLOYMENT

National income measures the annual earnings of Canadian residents from productive operations. As such it includes salaries, wages and other forms of earnings by employees, in cash or otherwise, plus military pay and allowances. It includes corporation profits and other returns on invested capital. It includes the net income of farmers and of others who are in business on their own account.

Gross National Product is the value at market prices of all the goods and services produced in a year by the labour, capital and enterprise of Canadian residents. It is obtained by adding to National Income indirect taxes and such costs as depreciation allowances which may be regarded as entering into the cost of the goods and services produced, but do not form part of the incomes of Canadians. On the other hand, government subsidies, which reduce the price to the consumer or add to the income of producers, have to be deducted since they form part of the income of Canadians but do not enter into costs of production.

The goods and services produced in a year must be disposed of in some way. They are either sold at home or abroad or added to inventories. Gross National Expenditure indicates how the Gross National Product was disposed of. Thus it measures the same total as Gross National Product but in a different way. Since foreign expenditures on Canadian goods and services, *i.e.*, exports, form part of the earnings of Canadians in the Gross National Product, they are likewise included in Gross National Expenditure. While Canadian expenditure on imported goods and services is included in the totals of consumer expenditure, government expenditure and gross home investment, it is not part of the disposition of Canadian production and is therefore deducted.

NATIONAL INCOME AND GROSS NATIONAL PRODUCT

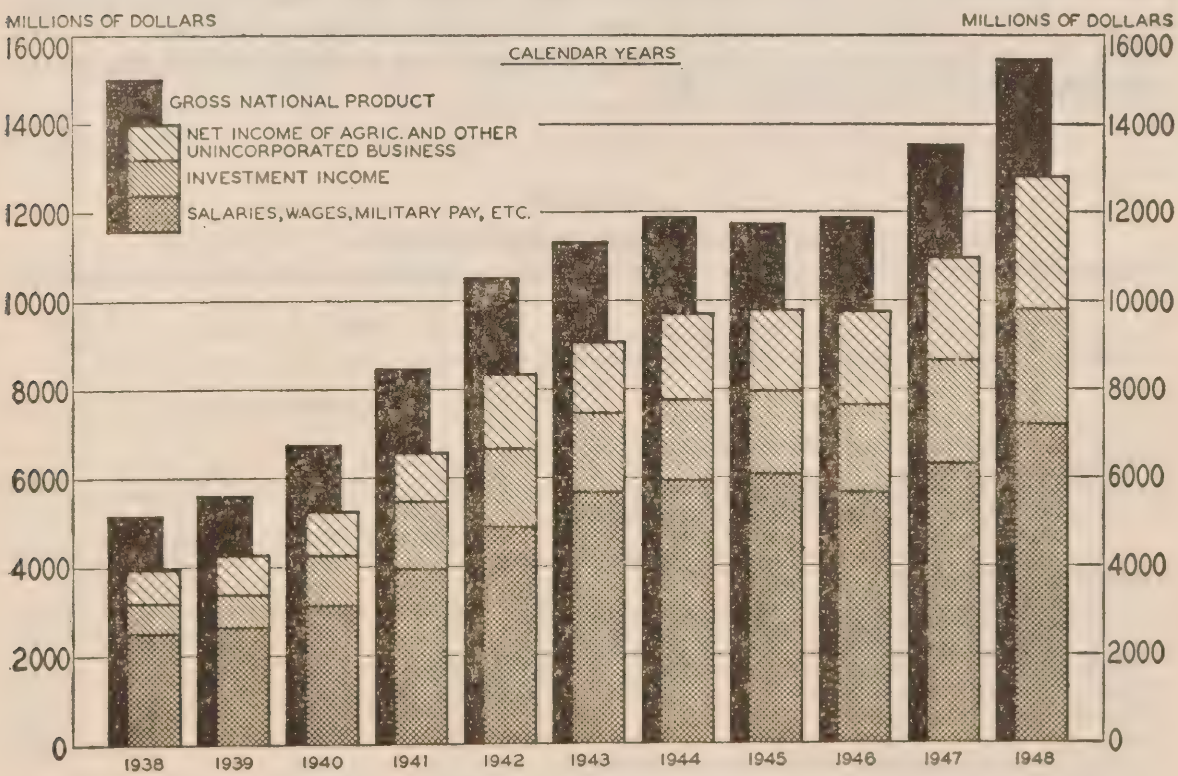

TABLE 1

NATIONAL INCOME AND GROSS NATIONAL PRODUCT

—	1939	1946	1947	Prelim. 1948
	(Millions of Dollars)			
1. Salaries, wages and supplementary labour income..	2,583	5,322	6,235	7,130
2. Military pay and allowances	32	340	83	81
3. Investment income	783	1,949	2,319	2,590
4. Net income of agriculture and other unincorporated business	891	2,154	2,352	2,995
5. **NATIONAL INCOME** (1+2+3+4)	**4,289**	**9,765**	**10,989**	**12,796**
6. Indirect taxes less subsidies	737	1,261	1,600	1,721
7. Depreciation allowances and similar business costs.	582	846	1,010	1,059
8. Residual error of estimate	−10	−9	−80	−162
9. **Gross National Product at Market Prices** (5+6+7+8)	**5,598**	**11,863**	**13,519**	**15,414**

The value of goods and services produced by Canadians attained new levels in 1948, surpassing the previous year by 14%. Physical output showed a modest gain but most of the increase is accounted for by higher prices. The resulting additions to incomes were widely distributed. Total income of wage and salary earners went up by $895 million or 14%, investment income by $271 million or 15% and the income of those engaged in agriculture and other unincorporated businesses by $643 million or 27%. In dollar terms the National Income in 1948 was about three times as high as in 1939. It is difficult to say exactly how much the gain has been in real output, but tentative calculations suggest that, when adjustment is made for price changes between the two years, the physical output of the Canadian people as a whole in 1948 was probably two-thirds higher than in 1939.

TABLE 2

GROSS NATIONAL EXPENDITURE

—	1939	1946	1947	Prelim. 1948
	(Millions of Dollars)			
1. Personal expenditure on consumer goods and services	3,861	7,913	8,949	10,000
2. Government expenditure on goods and services				
(a) excluding mutual aid, UNRRA and military relief	724	1,731	1,512	1,725
(b) mutual aid, UNRRA and military relief	....	97	38	19
3. Gross home investment—				
(a) plant, equipment and housing	554	1,321	2,057	2,540
(b) inventories	327	467	866	550
4. Export of goods and services (1) (excluding mutual aid, etc.)	1,451	3,197	3,629	4,037
5. Imports of goods and services (1)	−1,328	−2,871	−3,612	−3,618
6. Residual error of estimate	+9	+8	+80	+161
7. **Gross National Expenditure at Market Prices** (1+2+3+4+5+6)	**5,598**	**11,863**	**13,519**	**15,414**

(1) Minor adjustments have been made to the figures of current receipts and payments shown on page 21 of "The Canadian Balance of International Payments", 1948, Dominion Bureau of Statistics, to achieve consistency with the other component series. (See also Table 14).

Looking at the expenditure side of the national accounts, several developments are to be noted. Personal expenditure on consumer goods and services, which had risen by about a billion dollars in 1947 rose by the same amount in 1948. This increase of about 12% in dollar expenditure is less than the increase in the cost-of-living index of about 14% between 1947 and 1948, which would seem to indicate that there was some decrease in the physical volume of supplies purchased during the year. Post-war investment expenditure continued at an unprecedented level, absorbing 20% by value of total available supplies in 1948. The claims of federal, provincial and municipal governments on available supplies, which had fallen steadily from 1944 (when the war effort was at its peak) to 1947, rose somewhat in 1948. However, all governments taken together consumed a smaller share of total output in 1948 than in 1939.

TABLE 3

GOVERNMENT EXPENDITURES ON GOODS AND SERVICES AS PERCENTAGE OF GROSS NATIONAL EXPENDITURE [1]

—	1939		1946		1947		Preliminary 1948	
	$ Millions	%	$ Millions	%	$ Millions	%	$ Millions	%
Gross national expenditure at market prices	5,598	100	11,863	100	13,519	100	15,414	100
Federal government expenditure on goods and services	214	4	1,102	9	619	5	678	4
Provincial and municipal expenditure on goods and services	510	9	726	6	931	7	1,066	7

(1) See Table 13.

During 1948 employment continued at very high levels. The total number of the unemployed was very small in proportion to the labour force as a whole although there are a few local areas where the situation is less favourable.

TABLE 4

ESTIMATED CANADIAN LABOUR FORCE AND EMPLOYMENT

—	June 1, 1939	June 1, 1946	May 31, 1947	June 5, 1948	Sept. 4, 1948	Nov. 20, 1948
	(Thousands of Persons)					
Total population 14 years and over	8,294	9,093	9,225	9,404	9,447	9,481
Total Labour Force, including Armed Forces	4,668	5,036	5,040	5,149	5,229	5,085
Armed Forces	10	122	35	36	37	38
Civilian Labour Force	4,658	4,911	4,995	5,113	5,192	5,047
Employed	3,763	4,785	4,904	5,031	5,125	4,941
Nonagricultural	2,483	3,511	3,741	3,845	3,878	3,955
Agricultural	1,280	1,274	1,163	1,186	1,247	986
Unemployed	895	126	91	82	67	106
Persons Not in the Labour Force	3,626	4,060	4,195	4,255	4,218	4,396

Note:—The estimates do not in all cases agree with the estimates shown in the labour force bulletins of the Dominion Bureau of Statistics. To take into account the fact that the labour force surveys do not cover approximately 100,000 persons living in institutions, the number of persons not in the labour force has been increased correspondingly. Similarly, to take account of the omission of Indians living on reservations and persons in inaccessible areas, the nonagricultural employed and persons not in the labour force have both been increased by 83,000.

PERSONAL INCOME AND ITS DISPOSITION

How much income was received by individual Canadians in a year and how that income was disposed of is portrayed in tables 5, 6, 7 and 8.

The total of personal income differs from the National Income in several respects. For example, it includes only that part of corporation income which is actually distributed. Deductions from employees' total earnings must also be made for unemployment insurance contributions and similar contributions which, although forming part of the compensation for services performed, are not actually received by the employee within the year. On the other hand, transfer payments such as family allowances, old age pensions, veterans benefits and charitable contributions by corporations are included in arriving at the total of personal income.

TABLE 5

SOURCES OF PERSONAL INCOME

—	1939	1946	1947	Prelim. 1948
	(Millions of Dollars)			
1. Salaries, wages and supplementary labour income..	2,583	5,322	6,235	7,130
Deduct: Employer and employee contribution to social ins. and govt. pension funds.............	−34	−147	−181	−220
2. Military pay and allowances.....................	32	340	83	81
3. Net income of agriculture and other unincorporated business.......................................	891	2,154	2,352	2,995
4. Interest, dividends and net rental income of persons.	564	878	1,037	1,127
5. Transfer payments to persons (excluding interest)				
(a) from government..........................	249	1,113	849	829
(b) charitable contributions made by corporations....................................	6	10	15	18
6. **Personal Income** (1+2+3+4+5).................	**4,291**	**9,670**	**10,390**	**11,960**

Personal income rose by $1,570 million or 15% from 1947 to 1948. As already pointed out, the additional income was widely distributed, the rise in farm incomes being particularly noteworthy. Transfer payments continued to decline, reflecting another drop in post-war payments to veterans which more than offset the growing total of family allowance payments and old age pensions.

TABLE 6

DISPOSITION OF PERSONAL INCOME

—	1939	1946	1947	Prelim. 1948
	(Millions of Dollars)			
1. Personal direct taxes				
(a) income taxes................................	61	711	694	717
(b) succession duties............................	28	54	61	58
(c) miscellaneous................................	21	31	36	39
Total direct taxes.......................	110	796	791	814
2. Personal expenditure on consumer goods and services—				
(a) goods..	2,464	5,666	6,557	7,368
(b) services.....................................	1,454	2,258	2,433	2,758
(c) net expenditure abroad......................	−57	−11	−41	−126
Total personal expenditure...............	3,861	7,913	8,949	10,000
3. Personal saving—				
(a) personal saving excluding farm inventories...	260	1,002	750	1,155
(b) net changes in farm inventories..............	60	−41	−100	−9
Total personal saving....................	320	961	650	1,146
4. **Personal Income** (1+2+3).........................	**4,291**	**9,670**	**10,390**	**11,960**

Personal expenditure on goods and services increased by less than personal income during 1948. While direct taxes accounted for a smaller proportion of personal income than in any year since 1942, direct tax collections actually rose by $23 million from 1947 to 1948. There was also a noteworthy reversal in the trend of personal saving which, after declining steadily from the high levels of war years, rose from $750 million in 1947 to $1,155 million in 1948.

DISPOSITION OF PERSONAL INCOME

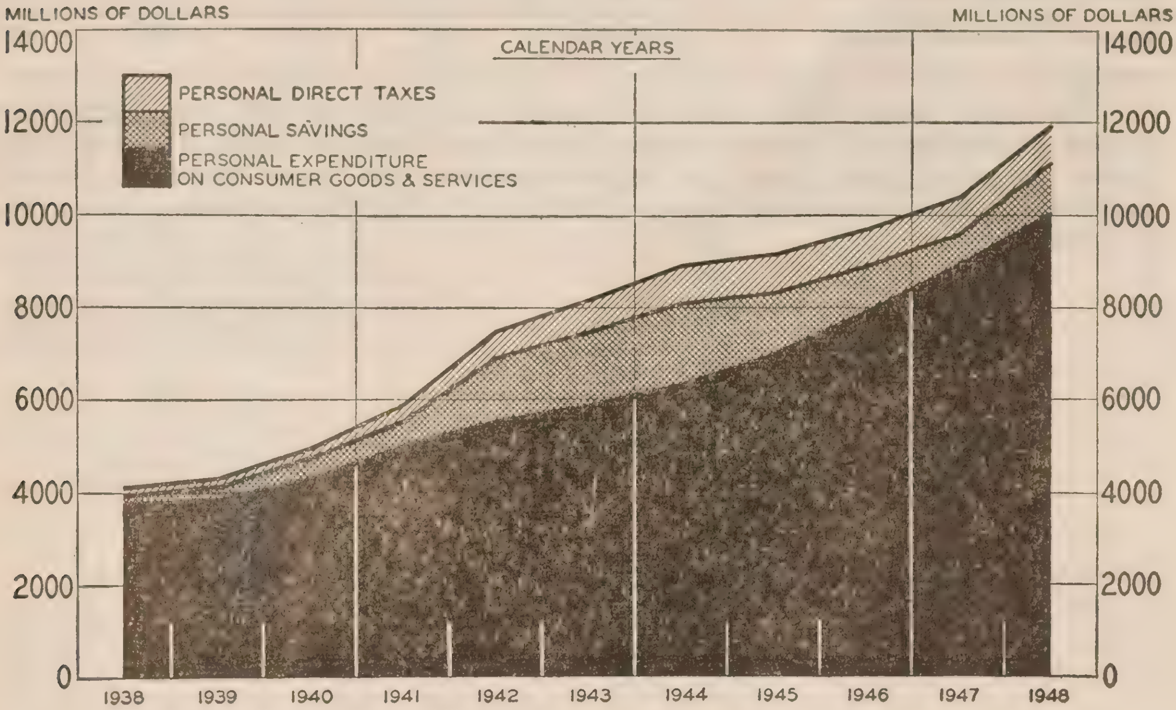

TABLE 7

PERSONAL SAVING AND SPENDING

—	1939		1946		1947		Preliminary 1948	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Personal consumer expenditure....	3,861	92·3	7,913	89·2	8,949	93·2	10,000	89·7
Personal Saving..................	**320**	7·7	**961**	**10·8**	**650**	6·8	**1,146**	**10·3**
Personal disposable income(1).....	4,181	100·0	8,874	100·0	9,599	100·0	11,146	100·0

(1) Personal income less personal direct taxes (See Table 6).

The relation between personal spending and saving is set out more specifically in the above table 7. It shows that Canadians saved approximately 10% of the personal incomes at their disposal after payment of taxes in 1948, as against nearly 7% in 1947.

TABLE 8

PERSONAL DISPOSABLE INCOME PER CAPITA

—	1939	1946	1947	Preliminary 1948
Population..............................(thousands)	11,267	12,307	12,582	12,883
Personal Income..........................per capita	$ 381	786	826	928
Deduct Personal Direct Taxes............per capita	$ 10	65	63	63
Personal Disposable Income............per capita	**$ 371**	**721**	**763**	**865**

On a per capita basis, personal income was $928 in 1948, the highest on record, exceeding 1947 by over $100. In spite of this very much higher income figure, personal direct taxes per capita remained the same, therefore leaving individual Canadians, on the average, with the full additional income for saving or spending.

SAVING AND INVESTMENT

Tables 9, 10, 11 and 12 are designed to illustrate how investment expenditures were financed out of savings. For the purpose of these accounts, a government deficit is regarded as a claim on public savings and a government surplus as an addition to public savings.

TABLE 9

SOURCES OF PRIVATE SAVING

—	1939	1946	1947	Preliminary 1948
	(MILLIONS OF DOLLARS)			
Personal saving	320	961	650	1,146
Undistributed corporation profits	219	411	590	890
Undistributed Wheat Board profits	....	37	57	−104
Inventory revaluation adjustment(1)	−56	−8	−18	−4
Depreciation allowances	582	846	1,010	1,059
Residual error of estimate(2)	−10	−9	−80	−162
Total	1,055	2,238	2,209	2,825

(1) The adjustment has been made only to grain held in commercial channels.
(2) See Tables 1 and 2.

There was a very substantial increase in both personal and corporate saving during 1948, the total of these two items rising from $1,240 million in 1947 to $2,036 million in 1948. The only significant offset was a reduction in saving by the Canadian Wheat Board which made substantial payments out of its accumulated profits during the year.

TABLE 10

DISPOSITION OF PRIVATE SAVING

—	1939	1946	1947	Preliminary 1948
	(MILLIONS OF DOLLARS)			
Gross Home Investment	881	1,788	2,923	3,090
Net increase in foreign assets (including foreign exchange) adjusted(1)	123	326	17	419
Government deficit (+) or surplus (−)(2)	**42**	**116**	**−811**	**−845**
Residual error of estimate(3)	9	8	80	161
Total	1,055	2,238	2,209	2,825

(1) See Table 15.
(2) See Table 13.
(3) See Tables 1 and 2.

The claims upon savings represented by investment expenditures in plant, equipment, housing and inventories increased by very little in 1948. Foreign investment, however, rose from virtually nothing in 1947 to $419 million, represented for the most part by additions to foreign exchange reserves. The revenues of all governments taken together exceeded expenditures by $845 million in the calendar year 1948, a somewhat larger surplus than in 1947. This surplus on government account formed 23% of total savings by the Canadian people in 1948.

TABLE 11

CORPORATION PROFITS AND CORPORATE SAVINGS

—	1939	1946	1947	Preliminary 1948
	(Millions of Dollars)			
Corporate profits before taxes(1)	618	1,421	1,821	2,174
Deduct corporate taxes(2)	−112	−670	−724	−744
Corporate profits after taxes	506	751	1,097	1,430
Deduct dividends paid out(3)	−287	−340	−507	−540
Undistributed corporate profits(4)	219	411	590	890

(1) Includes depletion charges and is adjusted for corporate losses, renegotiation of war contracts and conversion to a calendar year basis.
(2) Taxes paid or payable in respect of the calendar year's income, excluding the refundable portion of the excess profit tax. (See Table 13).
(3) Includes charitable contributions made by corporations. (See Table 5, Item 5(*b*)).
(4) (See Table 9).

Corporation profits before taxes increased by $353 million from 1947 to 1948. Almost the whole of the increase is reflected in the increase in corporation profits after taxes of $333 million because of the decrease in corporate taxes. Dividends paid out, however, increased by only $33 million so that retained profits showed another substantial increase, reaching a total of nearly $900 million in 1948.

TABLE 12

GROSS HOME INVESTMENT

—	1939	1946	1947	Prelim. 1948
	(Millions of Dollars)			
Plant, Equipment, and Housing—Total(1)	554	1,321	2,057	2,540
New Residential Construction(2)	145	338	492	614
Other New Construction	126	349	564	710
New Machinery and Equipment	283	634	1,001	1,216
Inventories—Total	327	467	866	550
Grain in Commercial Channels(3)	127	−46	22	55
Farm Grain and Livestock(3)	60	−41	−100	−9
All Other Inventories(4)	140	554	944	484
Gross Home Investment(5)	**881**	**1,788**	**2,923**	**3,090**
Percentage of Gross National Product	**16%**	**15%**	**22%**	**20%**

(1) Includes private businesses and institutions, and publicly owned public utilities.
(2) Excludes construction by Wartime Housing Limited which is included with Government expenditure on goods and services (Table 2).
(3) Value of physical change.
(4) Change in value. Includes privately financed industrial and trade inventories.
(5) See Table 2, Item 3.

In dollar terms, private investment expenditures on plant, equipment and housing, including those of publicly owned utilities, rose by approximately 23% in 1948. In terms of physical units, there was a much smaller change. Analysis of the figures indicates a shift in the content of investment expenditures. The value of construction and equipment used by utilities was up sharply and increases are indicated for housing. Investment in manufacturing industries declined. The net addition to inventories was only $550 million in 1948 compared with $866 million in 1947.

REVENUE AND EXPENDITURE OF ALL GOVERNMENTS

Table 13, "Government Transactions Related to the National Accounts", attempts to bring together in one statement and under uniform headings the activities of all governments in Canada on a calendar year basis.

The table is designed to include only those transactions which have relevance for the national accounts, and consequently the surpluses or deficits shown here do not agree with those shown in the various public accounts. It has been necessary to adjust the conventional accounting statements of fiscal year revenue and expenditure to exclude purely bookeeping transactions as well as the purchase and sale of existing capital assets. Extra-budgetary funds such as unemployment insurance, workmen's compensation and pension funds have been added, and surpluses or deficits of Government enterprises are likewise included. In the federal accounts some of the more substantial adjustments are as follows: addition of national defence recoverable expenditure, allocation of war refunds to prior years, adjustment of corporate taxes to an accrual basis, elimination of sales of war assets to business, and elimination of British Commonwealth Air Training Plan write-off from expenditure. In addition the federal figures have been adjusted to a calendar year basis by using the monthly figures published by the Comptroller of the Treasury. Government loans to foreign countries or accumulation of gold or foreign exchange are not included with government expenditure.

For purpose of analysis, expenditures by governments may be divided into two main categories: expenditures for the purchase of goods and services, and so-called transfer payments, i.e., family allowances, old age pensions, veterans benefits, the greater part of the interest on the public debt, etc., which do not arise from current production of goods and services. The first category represents the demands which governments place on the annual output of the nation. Transfer payments, on the other hand, simply add to the sums available for spending or saving by the recipient.

TABLE 13

GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

—	1939	1946	1947	Prelim. 1948
	(Millions of Dollars)			
Government Revenue—				
Direct Taxes—Persons	110	796	791	814
Income and Excess Profits—				
Federal	46	711	694	717
Provincial and Municipal	15	....	....	....
Succession Duties—				
Federal	....	20	30	29
Provincial	28	34	31	29
Miscellaneous—				
Federal	3	6	4	6
Provincial and Municipal	18	25	32	33
Direct Taxes—Corporations	123	699	759	785
Income and Excess Profits—				
Federal	98	668	652	622
Provincial	14	2	72	122
Withholding taxes—federal	11	29	35	41
Indirect Taxes	720	1,502	1,780	1,796
Federal	310	956	1,136	1,086
Provincial and Municipal	410	546	644	710
Investment Income	99	379	343	336
Federal	−11	153	115	103
Provincial and Municipal	110	226	228	233
Employer and Employee Contributions to Social Security and Pension Funds	34	147	181	220
Federal	6	79	100	129
Provincial and Municipal	28	68	81	91
Transfers from Other Governments— Provincial and Municipal	83	164	208	155
Total Revenue	1,169	3,687	4,062	4,106
Federal	463	2,622	2,766	2,733
Provincial and Municipal	706	1,065	1,296	1,373
Deficit (or surplus−)	**42**	**116**	**−811**	**−845**
Federal	10	231	−715	−824
Provincial and Municipal	32	−115	−96	−21
Total Revenue plus Deficit (or minus Surplus)	**1,211**	**3,803**	**3,251**	**3,261**
Federal	473	2,853	2,051	1,909
Provincial and Municipal	738	950	1,200	1,352

TABLE 13—Concluded

GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

—	1939	1946	1947	Prelim. 1948
	(MILLIONS OF DOLLARS)			
GOVERNMENT EXPENDITURE—				
Goods and Services	724	1,828	1,550	1,744
Federal—excluding mutual aid, UNRRA and military relief	214	1,005	581	659
—mutual aid, UNRRA and military relief	....	97	38	19
Provincial and Municipal	510	726	931	1,066
Transfer Payments	421	1,570	1,313	1,287
Federal	194	1,351	1,049	1,006
Provincial and Municipal	227	219	264	281
Subsidies	−17	241	180	75
Federal	−18	236	175	70
Provincial and Municipal	1	5	5	5
Transfers to Other Governments—				
Federal	83	164	208	155
Total Expenditure	**1,211**	**3,803**	**3,251**	**3,261**
Federal	473	2,853	2,051	1,909
Provincial and Municipal	738	950	1,200	1,352

Using the definitions appropriate to the calculation of the National Income and Expenditure (which, as already explained, differ somewhat from the accounting procedures used by governments), it is estimated that during the calendar year 1948, federal, provincial and municipal governments took in as revenue $4,106 million and spent $3,261 million, leaving an over-all surplus of $845 million of which $824 million was attributable to the federal government and $21 million to the provincial and municipal governments. Both the revenues and expenditures of the federal government declined, but expenditures fell more sharply, so that the federal surplus actually increased from 1947 to 1948. On the other hand, provincial and municipal governments, taken together, spent more than in 1947 and took in more by way of revenue, but the net result was a smaller surplus of revenue over expenditure.

INTERNATIONAL PAYMENTS AND EXCHANGE RESERVES

Tables 14 and 15 are designed to display the principal features of Canada's international balance of payments on current account and the related changes in capital items.

When goods are exported (unless they are given away) they give rise to payments or debts in favor of Canada. Similarly, when goods are imported they give rise to payments or debts in favor of the rest of the world. Other transactions, such as interest and dividend payments, the tourist trade, freight and shipping charges, also give rise to similar payments or debts in either direction. The difference between the debits and credits arising from these current transactions is referred to as the net balance of international payments on current account, as shown in Table 14. When total credits exceed total debits within a year, the rest of the world has gone into debt to Canada or Canada has paid off some of her debt to the rest of the world. When total debits exceed total credits, the net position is, of course, reversed.

It is also important to consider the related changes on capital account, *i.e.*, the international transactions which do not arise from the movement of goods or the performance of services, such as borrowing and lending operations between Canada and the rest of the world. These are shown in Table 15. The changes in official exchange reserves, *i.e.*, in Canadian holdings of gold and United States dollars, over a series of years are also shown in Table 16.

TABLE 14

CANADA'S NET BALANCE OF INTERNATIONAL PAYMENTS ON CURRENT ACCOUNT

—	1939	1946	1947	Preliminary 1948
	(Millions of Dollars)			
Net Balance—				
Merchandise	377	667	274	551
U.S.A. excluding non-monetary gold	−128	−430	−903	−289
non-monetary gold	184	96	99	119
U.K. and other Empire(1)	259	628	773	517
Other Countries	62	373	305	204
Interest and Dividends	−249	−242	−275	−255
U.S.A.	−193	−203	−239	−230
U.K. and other Empire	− 75	− 46	− 41	− 38
Other Countries	19	7	5	13
Tourist Trade	68	86	84	150
U.S.A.	70	86	89	158
U.K. and other Empire	− 4	....	− 4	− 6
Other Countries	2	....	− 1	− 2
Freight and Shipping	− 17	92	44	62
U.S.A.	− 15	− 68	−117	−84
U.K. and other Empire	4	103	116	97
Other Countries	− 6	57	45	49
All other transactions	−53	−143	− 42	−36
U.S.A.	− 34	− 88	− 64	−75
U.K. and other Empire	− 8	− 16	30	47
Other Couutries	− 11	− 39	− 8	−8
Total current balance (unadjusted)	126	460	85	472
U.S.A.	−116	−607	−1,135	−401
U.K. and other Empire	176	669	874	617
Other Countries	66	398	346	256
Less Official Contributions	....	− 97	− 38	−19
Total increase (1) in foreign assets (including foreign exchange)	**126**	**363**	**47**	**453**
Adjustment for national accounts	− 3	− 37	− 30	− 34
Adjusted total (2)	123	326	17	419

(1) Other sterling area countries are included with U.K. and other Empire for 1946, 1947 and 1948
(2) See Tables 2 and 10.

The over-all surplus in Canada's balance of international payments rose from $47 million in 1947 to $453 million in 1948. The 1948 figure was substantially higher than the $363 million current account surplus achieved in 1946 and constituted the largest favourable balance ever achieved by Canada in a peacetime year. About three-fifths of the increase of $406 million in our current balance over 1947 is due to a larger surplus on commodity account and about two-fifths to the improvement in our balance on so-called "invisible" items.

The most important change in Canada's commodity trade in 1948 was in the geographical distribution of our exports. The destination of Canada's commodity exports in prewar and in recent years has been as follows:

—	United States	United Kingdom	Other Sterling Area	Other ERP Countries	Other Countries
	%	%	%	%	%
1935-1939	37	37	10	7	9
1947	39	28	13	12	8
1948	50	23	10	10	7

The change in the destination of exports in 1948 was accompanied by an opposite change in the source of imports, as shown below:

—	United States	United Kingdom	Other Sterling Area	Other ERP Countries	Other Countries
	%	%	%	%	%
1935–1939	61	18	11	6	4
1947	77	7	6	3	7
1948	69	11	7	3	10

TABLE 15

SUMMARY OF CANADA'S NET BALANCE OF INTERNATIONAL PAYMENTS ON CURRENT ACCOUNT AND RELATED CHANGES ON CAPITAL ACCOUNT

—	1939	1946	1947	Preliminary 1948
UNITED STATES AND OTHER NON-EMPIRE COUNTRIES—	(MILLIONS OF DOLLARS)			
Net Balance on Current Account—				
U.S.A.	−116	−607	−1,135	−401
Other	+ 66	+398	+346	+256
Total (including Official Contributions)	− 50	−209	−789	−145
Related Changes on Capital Account—				
Net New Issues (+) or Retirements (−) of Canadian Securities	+ 24	−238	−231	+ 51
Net Sales (+) or Purchases (−) of Outstanding Securities	+ 87	+268	+ 4	− 13
Export Credits and Interim Advances	....	−210	−140	− 74
Other Net Capital Movements	−164	+ 77	− 54	+106
Official Contributions	—	− 92	− 38	− 19
Special Receipts of Convertible Exchange from Sterling Area	+ 2	+150	+505	+597
Decrease (+) or Increase (−) in Canadian holdings of gold and U.S. Dollars	(1)	+251	+743	−496
Balancing Item (2)	+101	+ 3	—	− 7
Total	+ 50	+209	+789	+145

(1) Included with "other net capital movements".
(2) Includes multilateral settlements (in 1939) and errors and omissions in all years.

TABLE 15—Concluded

—	1939	1946	1947	Preliminary 1948
	(Millions of Dollars)			
United Kingdom and Empire Countries—				
Net Balance on Current Account—				
United Kingdom	+137	+500	+633	+488
Other Empire Countries(1)	+ 39	+169	+241	+129
Total (including Official Contributions)	+176	+669	+874	+617
Related Changes on Capital Account—				
Net New Issues (+) or Retirements (−) of Canadian Securities	−120	− 77	− 41	− 14
Net Sales (+) or Purchases (−) of Outstanding Securities	− 5	− 54	− 9	− 4
Loans and Interim Advances (net)	....	−652	−423	− 52
Repayments on 1942 U.K. Loan	....	+ 89	+104	+ 64
Other Net Capital Movements	+ 42	+164	....	− 18
Official Contributions	....	− 5	....	....
Special Receipts of Convertible Exchange	− 2	−150	−505	−597
Decrease (+) or Increase (−) in Canadian holdings of £ Sterling	....	+ 15	− 1	....
Balancing Item(2)	− 91	+ 1	+ 1	+ 4
Total	−176	−669	−874	−617

(1) Other Sterling Area countries are included with Other Empire countries for 1946, 1947 and 1948.
(2) Includes multilateral settlements (in 1939), and errors and omissions in all years.

Deducting repayments, the Canadian Government made loans or advances to foreign countries to a net amount of $126 million during 1948, as against $563 million in 1947. During the same period the United Kingdom repaid $64 million on the $700 million interest-free loan of 1942, compared with $104 million in 1947. Official contributions for relief purposes fell by half from $38 million in 1947 to $19 million in 1948.

Included in the other capital movements vis-a-vis the United States and other non-Empire countries was an inflow of capital from the U.S. dollar area for investment in Canadian properties or business of $68 million. This figure does not include the ploughing-in of earnings by Canadian companies instead of their transfer to the non-resident parent company. The comparable figure of direct investments for 1947 was $48 million, for 1946, $41 million and for 1945, $17 million.

TABLE 16

HOLDINGS OF GOLD AND U.S. DOLLARS

—	F.E.C.B. and Bank of Canada	Government of Canada	Private(1)	Total
	(Millions of Dollars)			
Sept. 15, 1939	238·7	22·4	132·0	393·1
Dec. 31, 1939	272·8	33·4	98·0	404·2
Dec. 31, 1940	309·3	20·8	2·0	332·1
Dec. 31, 1941	164·1	23·5	....	187·6
Dec. 31, 1942	242·9	75·6	....	318·5
Dec. 31, 1943	573·2	76·4	....	649·6
Dec. 31, 1944	800·1	102·1	....	902·2
Dec. 31, 1945	1,275·9	232·1	....	1,508·0
Dec. 31, 1946	1,222·3	22·6	....	1,244·9
Dec. 31, 1947	458·4	43·3	....	501·7
Dec. 31, 1948	975·8	22·0	....	997·8

(1) Exclusive of working balances.

OTHER ECONOMIC INDICATORS

The following tables are a selection of official statistics to illustrate some of the important trends in output, prices and money supply.

TABLE 17

INDEX OF PHYSICAL VOLUME OF INDUSTRIAL PRODUCTION, 1939-1948

SEASONALLY ADJUSTED, 1935-9=100

—	Total	Mining	Manufacturing	Non-Durable Manufactures	Durable Manufactures	Electric Power
1939	109	118	108	108	108	108
1940	130	127	132	121	152	115
1941	157	135	164	140	205	128
1942	185	130	200	154	276	142
1943	199	118	217	167	302	155
1944	199	106	220	173	299	155
1945	176	102	192	170	229	154
1946	159	103	169	163	179	159
1947	176	113	187	174	208	172
1948	182	128	192	179	214	171
1948, by months—						
January	178	119	189	176	212	166
February	182	120	194	182	216	162
March	182	128	193	179	217	165
April	184	137	193	181	214	175
May	182	130	191	178	212	188
June	180	124	190	178	212	179
July	175	127	183	174	197	180
August	176	123	185	175	202	176
September	184	128	195	181	220	171
October	185	131	197	181	224	165
November	185	132	197	182	223	160
December	185	133	197	181	224	159

There was a further substantial increase in 1948 in all types of industrial output except electric power.

TABLE 18

AGRICULTURAL PRODUCTION

—	1939	1946	1947	Preliminary 1948
	(MILLIONS)			
Wheat (bush.)	521	414	337	393
Oats (bush.)	384	371	279	359
Barley (bush.)	103	149	141	155
Rye, flax seed, mixed grain (bush.)	62	68	60	105
Shelled corn, buckwheat, peas and beans (dry) (bush.)	18	20	15	20
Potatoes and turnips (tons)	4	4	3	4
Hay and clover, alfalfa, fodder corn, grain hay (tons)	22	23	24	25
Tobacco (lbs.)	108	141	107	109
Milk production (lbs.)	15,781	16,956	17,241	16,645
Meat production (lbs.)	1,490	2,350	2,220	*

* Not available.

Partly as a result of more favourable climatic conditions, production of field crops in 1948 recovered from 1947 levels but was still below wartime peaks. Milk production, however, was somewhat lower than in 1947 and, although final statistics are not available at this time, meat production also declined

TABLE 19

INDEX NUMBERS OF THE COST-OF-LIVING

(1935–39 = 100)

—	All Items			Foods			Clothing			Rents		
	Canada	U.S.A.	U.K.	Canada	U.S.A.	U.K.	Canada	U.S.A.	U.K.	Canada	U.S.A.	U.K.
MONTHLY AVERAGES—												
1939	102	99	104	101	95	104	101	101	107	104	104	102
1940	106	100	121	106	97	121	109	102	143	106	105	103
1941	112	105	131	116	106	124	116	106	185	109	106	103
1942	117	117	132	127	124	119	120	124	200	111	109	103
1943	118	124	131	131	138	123	121	130	176	112	108	103
1944	119	126	132	131	136	124	122	139	173	112	108	103
1945	120	128	134	133	139	126	122	146	174	112	108	104
1946	124	139	134	140	160	125	126	160	173	113	109	105
1947	136	159	....	160	194	....	144	186	....	117	111	....
1948	155	171	108(1)	196	210	108(1)	174	198	109(1)	121	117	100(1)
1948—January	148	169	104(1)	182	210	104(1)	161	192	103(1)	120	116	100(1)
February	150	168	106	186	205	108	165	195	104	120	116	100
March	151	167	106	186	202	109	170	196	105	120	116	100
April	152	169	108	187	208	109	173	196	106	120	116	99
May	153	171	108	191	211	108	174	198	107	121	117	99
June	154	172	110	194	214	114	175	197	109	121	117	99
July	157	174	108	201	217	108	175	197	110	121	117	99
August	158	175	108	203	217	108	176	200	112	121	118	99
September	159	175	108	204	215	107	180	201	113	121	119	99
October	160	174	108	205	212	108	181	202	114	121	119	100
November	160	172	109	205	208	108	182	201	115	121	119	100
December	159	171	109	202	205	108	182	200	115	122	120	100
1949—January	**160**	**171**	....	**202**	**205**	....	**182**	**197**	....	**122**	**120**	....

(1) New Interim Index, based on June 17, 1947 = 100.

The chief development in Canadian prices in 1948 was the stability in the cost-of-living index during the closing months of the year. There was practically no change from September to the end of the year. In the United States the cost-of-living index at the turn of the new year was 4 points below the high point attained in August.

TABLE 20

MONEY SUPPLY AND RELATED BANK ASSETS

Money Supply	December 31, 1939	1946	1947	1948
	(Millions of Dollars)			
Currency Outside Banks—				
Notes(1)	247	1,031	1,046	1,115
Coin(2)	34	65	66	70
Total Currency	281	1,096	1,112	1,185
Bank Deposits—				
Chartered Banks				
Demand(3)	853	2,291	2,296	2,544
Active Notice(4)	197	614	597	649
Other (excl. Government of Canada)(5)	157	229	233	276
Total	1,207	3,134	3,126	3,469
Deduct Float(6)	*−136*	*−328*	*−362*	*−400*
Net Total	1,071	2,806	2,764	3,069
Bank of Canada "Other" Deposits(7)	18	94	68	81
Total Bank Deposits	1,089	2,900	2,832	3,150
Money Supply	**1,370**	**3,996**	**3,944**	**4,335**

(1) Note circulation of Bank of Canada and chartered banks, excluding notes held by chartered banks.

(2) Subsidiary coin issued by the Mint less coin held by Bank of Canada and chartered banks in Canada.

(3) Chartered banks' public demand deposits in Canada.

(4) Chartered banks' public notice deposits in Canada other than estimated aggregate quarterly minimum balances in personal savings accounts and non-personal notice deposits.

(5) Chartered banks' Canadian dollar deposits of provincial governments, Canadian, United Kingdom, and foreign banks.

(6) Cheques on banks as shown in chartered bank month-end returns to the Minister of Finance.

(7) Bank of Canada Other Deposits as shown in published month-end statements—i.e. excluding Government of Canada, chartered banks and foreign deposits.

TABLE 20—Concluded

MONEY SUPPLY AND RELATED BANK ASSETS

Related Bank of Canada and Chartered Bank Assets	December 31, 1939	1946	1947	1948
	(Millions of Dollars)			
Government of Canada Securities, Gold & Exchange—				
Bank of Canada, Gold & Exchange(8)	290	....	....	....
Banking Securities(9))	425	1,476	811	1,138
Other Government of Canada Securities(10)	752	3,745	3,718	3,834
Total	752	3,745	3,718	3,834
Total Government of Canada Securities, Gold & Exch.	1,467	5,221	4,529	4,972
Deduct Government of Canada Deposits(11)	*−145*	*−366*	*−272*	*−320*
Net Total	1,322	4,855	4,257	4,652
All other Loans and Investments(12)	1,767	2,297	3,084	3,341
Deduct Inactive Notice Deposits(13)	*−1,544*	*−2,856*	*−3,143*	*−3,408*
Total Related Bank Assets	**1,545**	**4,296**	**4,198**	**4,585**

(8) Bank of Canada gold and foreign exchange holdings less the amount of foreign currency deposit liabilities.

(9) Bank of Canada and chartered bank holdings of Government of Canada Treasury Bills, Deposit Certificates, Treasury Notes and any other short term issues sold direct to bank of Canada and chartered banks.

(10) Bank of Canada and chartered bank holdings of Government of Canada direct and guaranteed securities other than those shown as banking issues.

(11) Canadian dollar deposits of the Government of Canada at chartered banks and Bank of Canada.

(12) All loans in Canada of the chartered banks other than temporary advances in connection with Victory Loan issues, plus chartered banks' holdings of provincial, municipal and "other" securities, and Bank of Canada holdings of Industrial Development Bank capital stock.

(13) Estimated aggregate minimum quarterly balances in chartered banks' personal savings deposits in Canada plus non-personal notice deposits in Canada.

From the end of 1946 to the end of 1947, the total money supply, as estimated by the Bank of Canada, showed virtually no change. During 1948, however, there was an increase of about $400 million. The reasons for the change are discussed in detail in the Bank of Canada annual report for the year 1948.

PART II

REVIEW OF GOVERNMENT ACCOUNTS 1948-49

1. Introduction

The figures appearing in this Part must be regarded as necessarily preliminary and subject to revision. Although the Government's fiscal year ends on March 31st the books must remain open for several weeks after that date in order to record various adjusting entries, as well as all payments up to April 30th made on account of expenditures originating in, and properly chargeable to, the current fiscal year. For these reasons final figures for the current year will not be available for some considerable time.

2. SUMMARY OF GOVERNMENTAL FINANCIAL OPERATIONS DURING THE YEAR

Total revenues of the Government for the year ending March 31, 1949, are now estimated at $2,768 millions. Expenditures, on the other hand, are estimated at $2,193 millions. On the basis of these figures it would appear that the Government's accounting or budgetary surplus for the current year will probably total something in the neighbourhood of $575 millions. This compares with the all-time record surplus of $676 millions accumulated during the year ended March 31, 1948. As a result of the current year's estimated surplus of $575 millions, the Government's net debt (*i.e.* the excess of total liabilities over total active assets) will reflect a reduction of an equivalent amount.

In addition to collecting revenues and making expenditures in the narrow accounting or budgetary sense of those terms, the Government also receives and disburses substantial amounts of cash in other ways. These other receipts and disbursements relate to transactions which give rise to increases or decreases in the Government's assets and liabilities, and they do not, therefore, appear in what might be called the Government's income account for the year, nor do they enter into the calculation of the Government's annual surplus or deficit. In 1948-49 the total of these other disbursements greatly exceeded the total of other receipts, and a large part of the cash provided by the 1948-49 surplus had to be used to finance the difference. The balance of cash available for the reduction of funded debt was, therefore, considerably reduced.

The following summary shows the nature and extent of these non-income account transactions and their effect upon the government's net cash position. The figures indicate that although a total cash sum of $650 millions became available to the government as a result of the current year's budgetary surplus, this was reduced to a "cash surplus" of only $182 millions after financing the large cash requirements on non-income account.

		(millions)
Net cash balance arising from the current year's budgetary surplus (*i.e.* budgetary surplus of $575 millions adjusted for non cash items)*		$650
Add other receipts:		
Increases in Annuity, Pension, Insurance and Guaranty accounts	$93	
Increases in Floating Debt, Deposit and Trust Accounts, and Sundry Suspense accounts	35	
		128
		778
Deduct other disbursements:		
Advances to the Foreign Exchange Control Board	450	
Loans to the United Kingdom and Other Governments (net)	57	
Advances to Central Mortgage and Housing Corporation	71	
Increases in other loans, advances and investments (net)	18	
		596
Cash surplus—*i.e.* balance available for debt reduction and/or increase in cash balances		$182

As shown above the total of other receipts during the year amounted to $128 millions, made up of $93 millions from increases in annuity, pension, insurance and guaranty accounts and $35 millions from increases in floating debt, deposit and trust accounts, and sundry suspense accounts. The total of other disbursements on the other hand amounted to no less than $596 millions, consisting of $450 millions by way of advances to the Foreign Exchange Control Board to finance increases in Canada's exchange reserves, $57 millions by way of loans to the United Kingdom and other countries for use in purchasing Canadian exports, $71 millions by way of advances to Central Mortgage and Housing Corporation for housing construction and housing loans, and a further net amount of $18 millions by way of miscellaneous loans, advances, and investments (including loans to veterans, farmers, and the Canadian National Railways).

Although total receipts from all sources exceeded total disbursements by only $182 millions, the government nevertheless reduced its outstanding funded debt by a net amount of $372 millions. This extra reduction in funded debt was made possible through sales of bonds out of Securities Investment Account. This account is the one used to record temporary holdings by the government of its own securities. Such securities are held either as temporary investments of surplus cash balances, or until the securities themselves mature or are cancelled.

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* To calculate the amount of cash made available to the government as a result of the current year's surplus two types of adjustment are necessary:

In the first place there must be added back to the accounting or budgetary surplus figure of $575 millions any items included in total expenditure which did not involve current outlays of cash. In this category, for example, come the provision for possible losses on ultimate realization of active assets, $75 millions; the annual amortization of bond discounts and commissions, $8·6 millions; the 1948–49 subsidy payments and expenses of the Commodity Prices Stabilization Corporation (which were financed out of moneys advanced to the Corporation in prior years), $15·0 millions; etc.

In the second place there must be deducted from the budgetary surplus figure any items included in total revenues which did not represent current receipts of cash. In this category, for example, come the interest accruals on interim advances made during the year to foreign governments, which were added to principal on consolidation of such advances into a specific loan, $16·0 millions; and the transfer to revenue of a balance previously held in a deposit account for War Supplies Limited, representing reimbursement for inspection costs in connection with certain procurements made through that company, $11·0 millions; etc.

A reconciliation between the "cash surplus" of $182 millions, the net reduction in funded debt of $372 millions, and the net change in the government's cash position during the year, is shown below:

		(millions)
Cash surplus—*i.e.* excess of total receipts from all sources over total disbursements		$182
Add:		
Net sales of securities from Securities Investment Account		224
		$406
Deduct:		
Reduction in funded debt payable in Canada	$472	
Less increase in funded debt payable in New York	100	
Net reduction in funded debt		372
Net increase in cash balances during the year		$ 34

3. SUMMARY OF THE 1948-49 REVENUE AND EXPENDITURE STATEMENT

The table which follows gives a summarized statement of revenues and expenditures for the year ended March 31, 1949, together with comparable figures for the four preceding fiscal years. More detailed tables, in comparative form, may be found at the back of this Appendix.

SUMMARY OF REVENUES AND EXPENDITURES

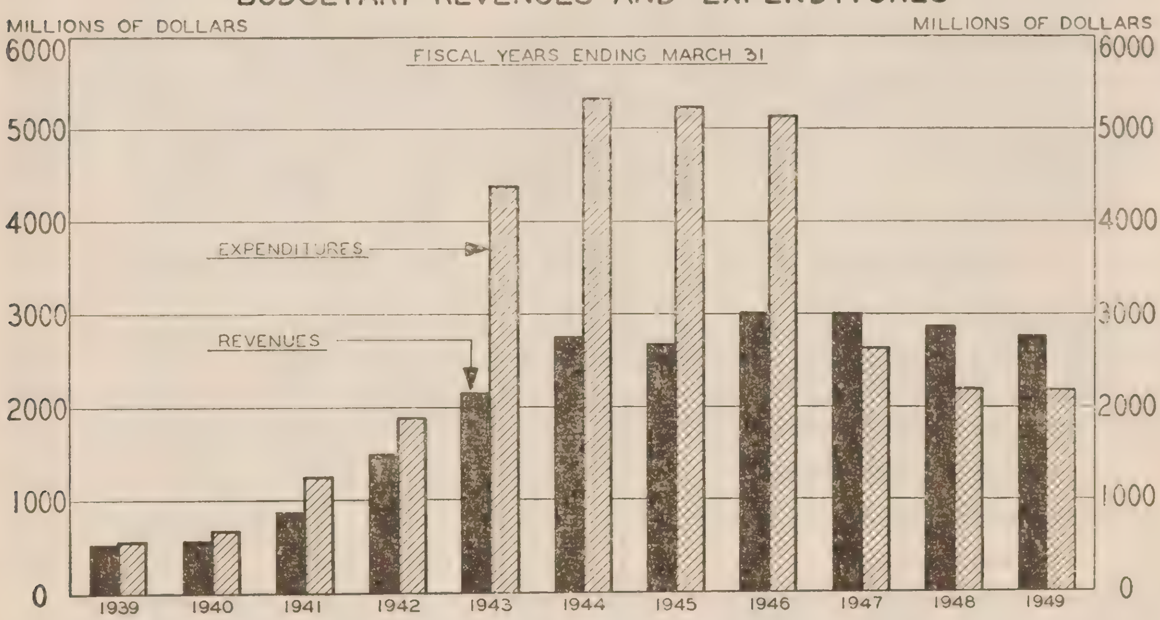
(in millions of dollars)

—	Fiscal Year Ended March 31				
	1945	1946	1947	1948	1949 (Estimated)
	$	$	$	$	$
Revenues					
Ordinary revenues	2,300·1	2,363·2	2,588·5	2,629·8	2,651·7
Capital refunds	0·7	0·4	0·1	0·1	
Special receipts and other credits	386·5	649·6	419·3	241·8	116·5
Total Revenues	2,687·3	3,013·2	3,007·9	2,871·7	2,768·2
Expenditures					
Ordinary expenditures	767·4	1,061·9	1,236·2	1,380·0	1,583·3
Capital expenditures	3·2	4·5	11·2	15·7	19·5
War, demobilization and reconversion expenditures	4,418·4	4,002·9	1,314·8	634·4	434·4
Special expenditures	7·5	17·4	31·9	63·1	34·4
Government-owned enterprises	1·3	1·3	10·7	18·7	39·7
Other charges, including the write down of assets	47·8	48·2	29·4	83·7	81·9
Total Expenditures	5,245·6	5,136·2	2,634·2	2,195·6	2,193·2
Budgetary Surplus or Deficit(−)	−2,558·3	−2,123·0	373·7	676·1	575·0

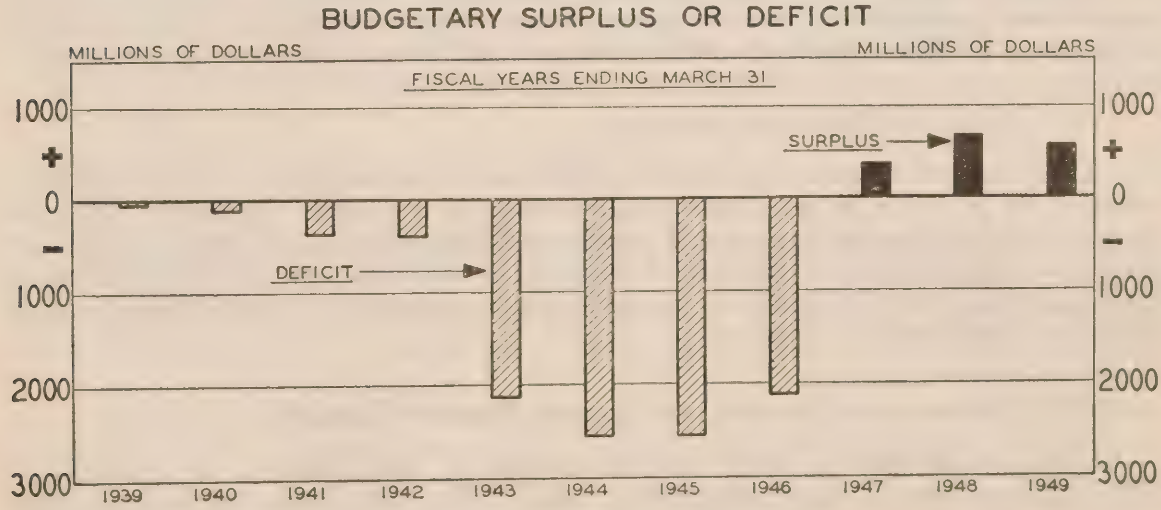
Ordinary revenues for the fiscal year ending March 31, 1949, are expected to total approximately $2,652 millions, which represents an increase of approximately $22 millions over the total for the previous year. This increase was more than offset, however, by a decrease in special receipts and credits which are expected to total only $117 millions this year as compared with a total of $242 millions received during 1947-48. The reduction in these receipts, which consist largely of refunds of previous years' war, demobilization and reconversion expenditures, and sales of surplus war assets, reflects the normal decline which was to be expected in revenues from this source.

Of special interest on the expenditure side is the decrease in demobilization and reconversion expenditures from a total of $634 millions in 1947-48 to an estimated total of $434 millions for the current year. Special expenditures also reflect a decrease, declining from $63 millions in 1947-48 to $34 millions in 1948-49. These reductions were almost entirely offset, however, by an increase of $203 millions in ordinary expenditures ($1,583 millions in 1948-49 as compared with $1,380 millions in 1947-48), and an increase of $21 millions in expenditures connected with government-owned enterprises ($40 millions in 1948-49 as compared with $19 millions in 1947-48). To some extent the increase in ordinary expenditures and the decrease in demobilization and reconversion expenditures resulted from a change in method of classifying expenditure as between the two years. Owing to their continuing nature, for example, all costs relating to pensions and treatment of World War II veterans are now classed as ordinary expenditure, whereas in previous years they were included under the heading of Demobilization and Reconversion Expenditure.

BUDGETARY REVENUES AND EXPENDITURES



BUDGETARY SURPLUS OR DEFICIT



4. ANALYSIS OF REVENUES

Estimated revenues for the year 1948-49, classified according to major categories, are presented in the following table along with corresponding figures for the previous fiscal year.

SUMMARY OF REVENUES, BY MAJOR CLASSIFICATIONS, FOR THE YEARS ENDED MARCH 31, 1949 AND MARCH 31, 1948

(In millions of dollars)

—	Fiscal Year Ended March 31				Increase or Decrease (—)
	1949 (Estimated)		1948		
	Amount	Percent	Amount	Percent	
	$		$		$
Direct Taxes—					
Individual Income Tax	771·0	27·9	659·8	23·0	111·2
Corporation Income Tax	490·0	17·7	364·2	12·7	125·8
Excess Profits Taxes	40·0	1·4	227·0	7·9	—187·0
Tax on Interest, Dividends, Rents and Royalties	42·7	1·6	35·9	1·2	6·8
Succession Duties	25·5	0·9	30·8	1·1	—5·3
Total Direct Taxes	1,369·2	49·5	1,317·7	45·9	51·5
Indirect Taxes—					
Customs Duties	225·0	8·1	293·0	10·2	—68·0
Excise Duties	206·0	7·4	196·8	6·9	9·2
Excise Taxes	637·4	23·0	640·7	22·3	—3·3
Other Indirect Taxes	4·0	0·2	3·8	0·1	0·2
Total Indirect Taxes	1,072·4	38·7	1,134·3	39·5	—61·9
Non-Tax Revenue—					
Post Office	79·8	2·9	77·8	2·7	2·0
Return on Investments	106·0	3·8	75·8	2·6	30·2
Other Non-Tax Revenue	24·3	0·9	24·2	0·9	0·1
Total Non-Tax Revenues	210·1	7·6	177·8	6·2	32·3
Total Ordinary Revenue	2,651·7	95·8	2,629·8	91·6	21·9
Special Receipts and Credits	116·5	4·2	241·9	8·4	—125·4
Total Revenues	2,768·2	100·0	2,871·7	100·0	—103·5

It will be noted that of grand total revenues for the year 49·5% was derived from direct taxes, 38·7% was obtained from indirect taxes, and the remaining 11·8% was attributable to non-tax revenues and special receipts and credits.

(a) Taxes on Personal Incomes

The personal income tax, which yielded an estimated total of $771 millions, retained its position as the largest single source of revenue. Although tax rates on personal incomes have remained unchanged since July 1, 1947, total collections from this tax showed an increase of some $111 millions over the 1947-48 total. This increase is a reflection of the high levels of income and employment which prevailed throughout the year.

(b) Corporation Income and Excess Profits Taxes

Corporation income taxes yielded a total of $490 millions, an increase of $126 millions over the previous year's total. This very large increase is attributable not only to the high level of business profits being earned during this

period, but also to the fact that the effect of the increase in corporation income tax rates (from 18% to 30%) which took place on January 1, 1947, was more fully reflected in 1948-49 revenues than it was in the revenues of the preceding year.

The yield from excess profits taxes totalled only $40 millions during the current year as compared with a total of $227 millions in 1947-48. These taxes were repealed as of December 31, 1947, so that collections during the year 1948-49 were largely in the nature of clean-up payments.

(c) Taxes on Interest, Dividends, Rents and Royalties

Revenues under this heading represent withholding taxes on certain payments going to non-residents. The 1948-49 total of $42·7 millions represents an increase of approximately $7 millions over that for the previous year. This increase is due largely to a higher level of dividend payments during the current period.

(d) Succession Duties

Revenue from succession duties is estimated at $25·5 millions for the current year. The decline of $5·3 millions below the previous year's total is attributable largely to the raising of exemptions on estates subject to duty from $5,000 to $50,000. This change, which was announced in the 1948 Budget Speech, became effective as of January 1, 1948.

(e) Customs Duties

Net revenues from customs duties for the current year are estimated at $225 millions. This represents a reduction of $68 millions below the 1947-48 total, a decrease which is attributable almost entirely to the import restrictions put into effect in November 1947 as part of Canada's exchange conservation program.

(f) Excise Duties

Excise duties, which are levied exclusively on alcoholic beverages and tobacco products, brought in an estimated total revenue of $206 millions during 1948-49, representing an increase of approximately $9 millions over the total for the previous year. Gross receipts in this category (before deducting refunds)are divided as follows: $105 millions from alcoholic beverages ($97·7 millions in 1947-48), and $104·3 millions from cigars, cigarettes and tobacco ($102·1 millions in 1947-48).

(g) Excise Taxes

Excise taxes constituted the second largest source of governmental revenues, with total collections for the year estimated at $637·4 millions ($640·7 millions in 1947-48). Included here are a wide variety of taxes on commodities and services levied under the provisions of the Excise Tax Act. The most important of these taxes from the point of view of revenue is the sales tax which yielded a gross revenue of $391·5 millions during 1948-49, or an increase of $8·5 millions over the total for the previous year. This increase, which reflects a somewhat higher price level during the current year, took place despite the fact that the majority of prepared food products not previously exempt from sales tax were placed on the exempt list in May, 1948.

The second largest revenue source among the excise taxes is the tax on tobacco products which yielded \$76·6 millions. This represents an increase of 12% over the previous year's total, and indicates an upward trend in tobacco consumption.

The revenue from several other excise taxes also showed a substantial increase during the year. The revenue from soft drinks, for example, reached a new high of \$27·8 millions, representing an increase of 17% over the total for the previous year. At the same time tax revenue from candy and chewing gum rose to \$21·5 millions, representing an increase of 18% during the year. Excise tax revenues from automobiles, rubber tires and tubes totalled \$37·4 millions for 1948-49, this increase of approximately 17% over 1947-48 revenues being attributable partly to the high rates of temporary taxes which were in effect until July 1948, and partly to the increased production and higher prices of automobiles.

Despite these increases, however, the over-all revenue from excise taxes was slightly lower in 1948-49 than in the preceding year because a number of previously important taxes no longer apply. The excise taxes on amusements, pari-mutuel bets, places of entertainment, and the special tax on importations, for example, were repealed in May, 1948 and yielded only small amounts of revenue during the current year. Moreover, excise taxes on gasoline and sugar, and the sales tax on gas and electricity, although they were repealed in 1947, yielded considerable amounts of revenue in 1947-48. Nothing, however, was received from these sources in 1948-49.

To some extent the revenue from excise taxes for the year reflects the temporary tax levies or temporary tax increases which were imposed in November 1947 in connection with the exchange conservation program. These temporary levies or increases were all removed over a period of nine months following that date, with the last and most important group being removed on July 31, 1948.

Some of the tax sources which showed an increase in revenue during the year (together with the amount of increase in each case) are as follows:

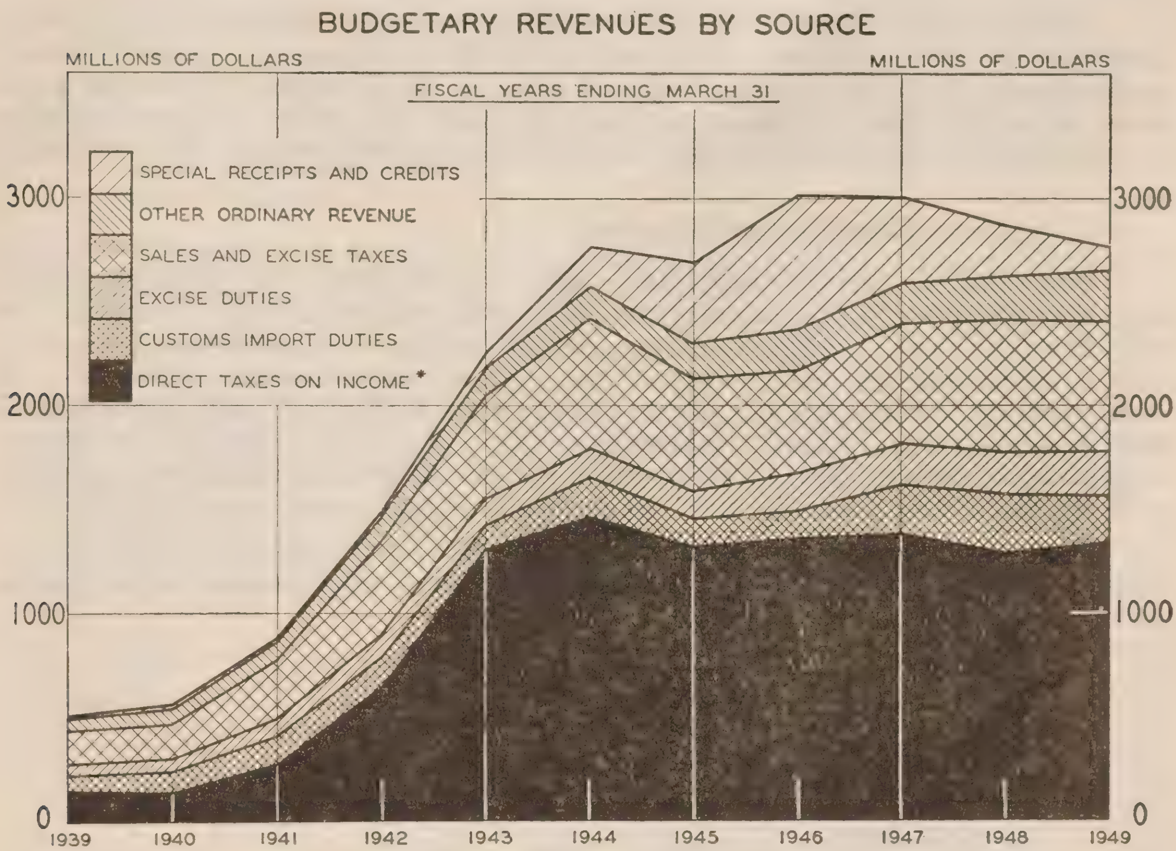
	Estimated Increase over 1947–48
Cigars, cigarettes and tobacco	\$ 7,994,000
Automobiles, rubber tires and tubes	5,491,000
Beverages	4,033,000
Candy and chewing gum	3,261,000
Electric and gas appliances	1,066,000
Transportation and communications	1,049,000

Some of the sources which showed a decrease in revenue during the year (together with the amount of decrease in each case) are as follows:

	Estimated Decrease from 1947–48
Amusements	\$ 12,789,000
Sugar	10,572,000
Pari-mutuel bets	2,519,000
Gasoline	2,208,000
Phonographs, radios and tubes	1,935,000
Special tax on importations	1,833,000
Stamps, including payment of taxes on jewellery, chinaware, cabaret attendance, etc	1,750,000

(h) Other Indirect Taxes

Small amounts of tax revenue are derived from the tax on chartered bank note circulation; from the taxes on the net premium income of insurance companies; from a tax on the export of electric energy from Canada, and from a tax on the export of furs from the Northwest Territories. Total revenue from all these sources for 1948-49 is estimated at $4·0 millions, a slight increase over the total for the previous year.



*Direct taxes on income include individual income taxes, corporation income and excess profits taxes, and taxes on interest, dividends, rents and royalties.

(i) Non-Tax Revenues

Non-tax revenues for 1948-49 are estimated at $210·1 millions, an increase of some $32 millions over the 1947-48 total. The greater part of this increase took place in the revenue classification entitled "Return on Investments", the total of which is expected to reach $106 millions in 1948-49 as compared with a total of $75·8 millions in 1947-48. The larger items entering into total receipts under this classification are: interest on advances to the Canadian National Railways, $21·2 millions; Bank of Canada profits, $19·2 millions; interest on loans to, and operating profits of, the Foreign Exchange Control Board, $13·4 millions; interest on bonds held in Securities Investment Account, $17 millions; interest on loans to foreign governments under Part II of The Export Credits Insurance Act, $26·2 millions; and interest on advances under the Soldier Settlement and Veterans' Land Act, $3·3 millions.

Also included in the general category of non-tax revenues are post office receipts, which are estimated at \$79·8 millions for 1948-49 as compared with a total of \$77·8 millions during 1947-48. It may be of interest to note that the total costs of operating the Post Office Department during the year are estimated at \$78·0 millions, so that receipts on this account exceeded costs by approximately \$1·8 millions. In making this comparison, however, it should be borne in mind that the total shown for Post Office receipts does not reflect the value of services rendered free of charge to other departments. Similarly the total shown for operating expenses does not reflect any charges for premises owned by the Government and occupied by the Post Office Department.

Other non-tax revenues of \$24·3 millions represent receipts derived from the following sources: services and service fees, \$8·6 millions; privileges, licences, and permits, \$6·0 millions; bullion and coinage, \$3·3 millions; proceeds from sales of publications, experimental farm produce, etc., \$2·4 millions; refunds of expenditures, \$1·9 millions; and miscellaneous non-tax receipts, \$2·1 millions.

(j) Special Receipts and Credits

The total of special receipts and credits for the fiscal year 1948-49 is estimated at \$116·5 millions, as compared with total receipts of \$241·9 millions for the preceding year. Receipts on war, demobilization and reconversion account again constituted by far the largest source of special revenues. The total of such receipts during the fiscal year 1948-49 was \$113·8 millions, consisting of \$80·8 millions from refunds of previous years' war, demobilization and reconversion expenditures; \$24·4 millions from the sale of surplus war assets, and \$8·6 millions from miscellaneous war, demobilization and reconversion revenues.

The largest item in this total, namely the \$80·8 millions received by way of refunds of previous years' war, demobilization and reconversion expenditures may be further analysed as follows:

Refunds in connection with cost audits and re-negotiation of contracts	\$ 58·0	millions
Reimbursement for inspection costs in connection with certain procurements made through War Supplies Limited	11·0	"
Refund by the Government of the United States of advances made by Canada in excess of amounts required to cover the cost of supplies and services furnished under lend lease and related programs (including the Canpay program)	3·7	"
Amount received from Central Mortgage and Housing Corporation representing proceeds from the sale of certain of the properties and assets transferred to that Corporation by Wartime Housing Limited	3·3	"
Miscellaneous refunds	4·8	"
	\$ 80·8	millions

The amount of \$24·4 millions realized from the disposal of surplus war assets does not include the residual cash balances or value of accounts receivable carried by War Assets Corporation as at March 31, 1949.

Miscellaneous war, demobilization and reconversion revenues totalling \$8·6 millions include the sum of \$5·0 millions derived from the operation of Park Steamships Limited, and the sum of \$1·4 millions representing the Government's share of profits arising out of the wartime operations of Sorel Industries Limited.

Apart from war, demobilization and reconversion revenues, the only other important item included in special receipts and credits during the last fiscal year was a credit of \$2·5 millions arising from the transfer to "Active Assets" of certain advances made in prior years in connection with the Snare River Power project, and previously classified as "Expenditure".

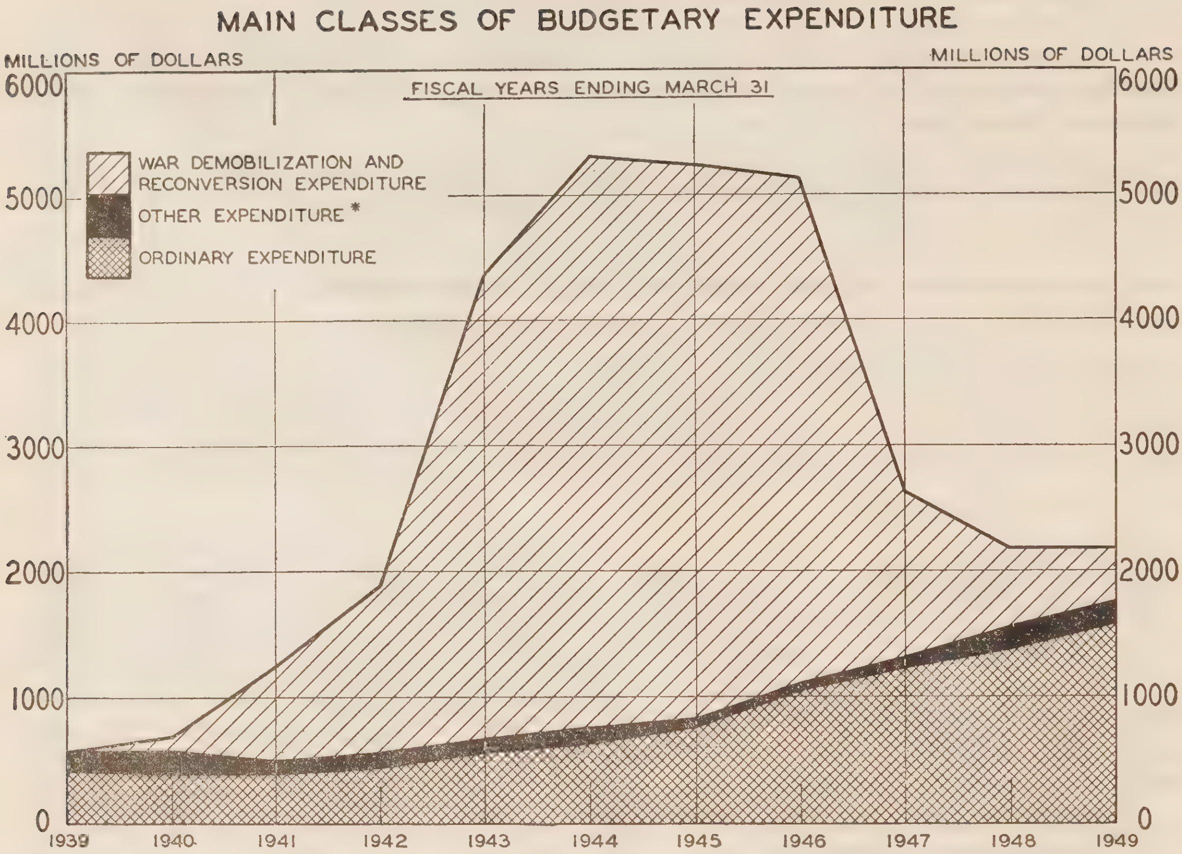
5. ANALYSIS OF EXPENDITURES

The table which follows presents a summary of expenditures, by major classifications, for the year 1948-49, together with corresponding figures for the previous fiscal year.

SUMMARY OF EXPENDITURES, BY MAJOR CLASSIFICATIONS, FOR THE YEARS ENDED MARCH 31, 1949 AND MARCH 31, 1948

(In millions of dollars)

—	Fiscal Year Ended March 31				Increase or Decrease (−)
	1949 Estimated		1948		
	Amount	Per cent	Amount	Per cent	
Ordinary Expenditure					
Public Debt Charges—					
Interest on Public Debt	463·7	21·1	455·5	20·7	8·2
Other Debt Charges	9·9	0·5	11·2	0·5	−1·3
	473·6	21·6	466·7	21·2	6·9
Subsidies, and Compensation to Provinces under Tax Agreements	101·5	4·6	155·9	7·1	−54·4
Family Allowances	271·0	12·4	263·2	12·0	7·8
Old Age Pensions and Pensions to Blind Persons	67·0	3·1	58·1	2·6	8·9
Unemployment Insurance Act—Administration and Government's Contribution	39·2	1·8	35·1	1·6	4·1
Department of National Revenue	51·3	2·3	37·3	1·7	14·0
Post Office Department	78·0	3·6	67·9	3·1	10·1
Agriculture	20·7	0·9	16·3	0·7	4·4
Mines and Resources	49·3	2·2	23·6	1·1	25·7
Public Works	51·7	2·3	35·6	1·6	16·1
Trade and Commerce	28·1	1·3	10·8	0·5	17·3
Transport	43·4	2·0	30·1	1·4	13·3
Veterans Affairs	183·5	8·4	97·3	4·5	86·2
Other Departments	125·0	5·7	82·1	3·7	42·9
Total Ordinary Expenditure	1,583·3	72·2	1,380·0	62·8	203·3
Capital Expenditure	19·5	0·9	15·7	0·7	3·8
Demobilization and Reconversion Expenditure					
National Defence—(Army, Navy and Air Services)	248·5	11·3	195·4	8·9	53·1
Reconstruction and Supply	1·5	0·1	62·3	2·8	−60·8
Veterans Affairs	88·8	4·0	237·4	10·8	−148·6
Costs of administering the Wartime Prices and Trade Board including costs of subsidies, and costs of drawback claims to millers	35·8	1·6	57·0	2·6	−21·2
Agriculture	25·0	1·2	33·2	1·5	−8·2
Trade and Commerce	18·7	0·9	0·1	0·0	18·6
Other Departments	16·1	0·7	49·0	2·3	−32·9
Total Demobilization and Reconversion Expenditure	434·4	19·8	634·4	28·9	−200·0
Special Expenditure	34·4	1·6	63·1	2·9	−28·7
Government Owned Enterprises	39·7	1·8	18·7	0·9	21·0
Other Charges	81·9	3·7	83·7	3·8	−1·8
Grand Total Expenditure	2,193·2	100·0	2,195·6	100·0	−2·4



*Other expenditure includes capital and special expenditures, deficits of government owned enterprises' and other charges.

(1) Ordinary Expenditures

(a) Debt Charges

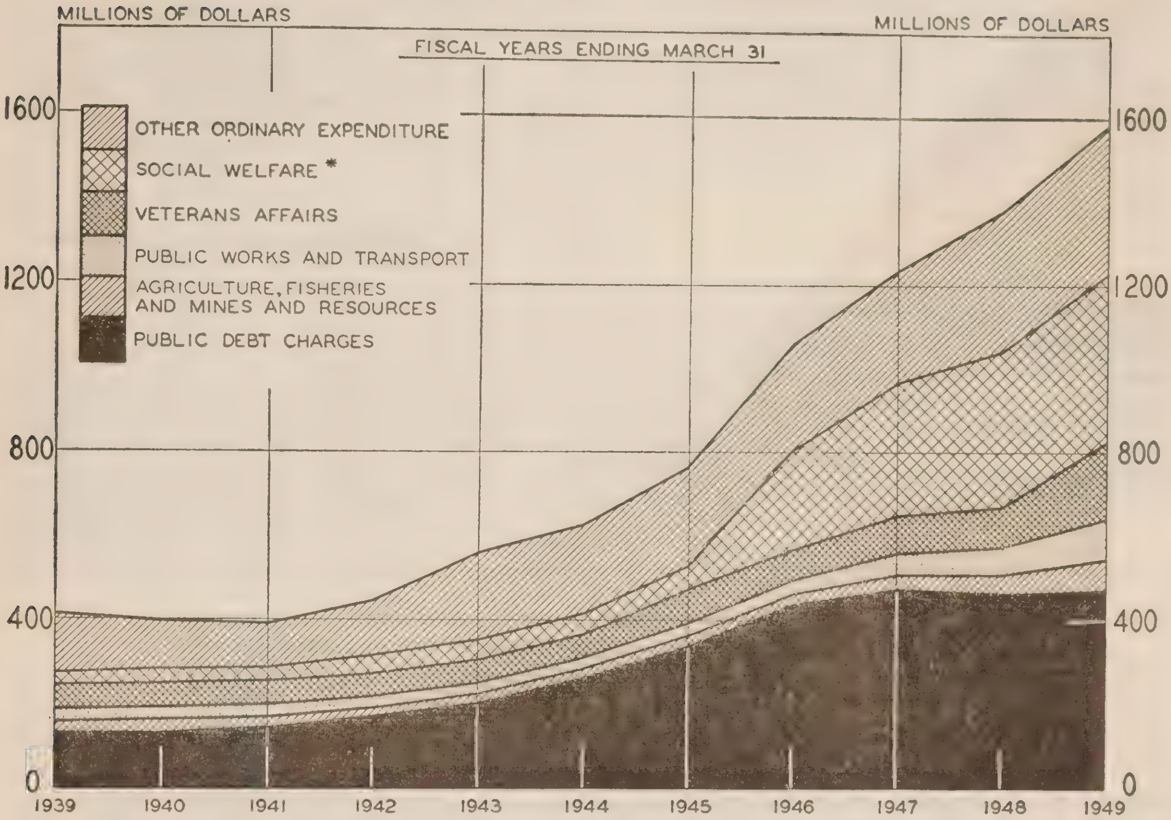
Interest on public debt again constituted the largest single item of governmental expenditure, with the 1948-49 total estimated at \$463·7 millions or 21·1% of total expenditure for the year. The increase of \$8·2 millions in this item over the 1947-48 total is attributable to the payment during 1948-49 of several years' accumulated interest on the 1943 and 1944 refundable portion of personal income taxes. The refundable portion for both these years is being repaid in March, 1949 and the total interest accrued thereon amounts to no less than \$19·1 millions. This compares with a total interest charge of only \$5·3 millions in the 1947-48 year, when the 1942 refundable portion was repaid.

If interest payments on the refundable portion are separated from both years' totals it will be seen that the aggregate of all other interest charges for the year 1948-49 was reduced \$5·6 millions below the corresponding total for the previous year.

Of total 1948-49 interest charges of \$463·7 millions, the sum of \$438·2 millions represents interest paid on the government's outstanding funded debt, while the balance of \$25·5 millions represents interest paid or credited to various annuity, superannuation, pension and trust funds.

The addition of annual amortization charges in connection with loan discounts and commissions, plus the costs of new loan flotations (not amortized), and certain miscellaneous service charges, brings the total of all public debt charges for the year to \$473·6 millions.

ANALYSIS OF ORDINARY EXPENDITURE



*Social welfare costs include family allowances, old age pensions and pensions to the blind, the Government's contribution to the Unemployment Insurance fund, and the ordinary expenditures of the Department of Labour and the Department of National Health and Welfare.

(b) Payments to Provinces

Total payments to provinces (including statutory subsidies and payments under tax agreements) amounted to \$101·5 millions, a decrease of some \$54·4 millions below the total for the previous year. This difference is attributable largely to the fact that the 1947-48 total included not only the current payments to the seven participating provinces under the 1947 Dominion-Provincial Tax Rental Agreements, but also the final holdback payments to six provinces under the old wartime tax agreements (which expired during 1947-48), and a special payment of \$8 millions each to Alberta and Saskatchewan in final settlement of claims in respect of natural resources.

Details of payments, by provinces, for the current year are as follows:

—	Statutory Subsidies	Compensation under the Dominion-Provincial Tax Rental Agreements Act, 1947	Total
	(millions)	(millions)	(millions)
Nova Scotia	$ 2·0	$ 10·7	$ 12·7
Prince Edward Island	0·7	1·8	2·5
New Brunswick	1·6	8·5	10·1
Quebec	2·9	....	2·9
Ontario	3·2	....	3·2
Manitoba	1·7	13·4	15·1
Saskatchewan	2·0	14·1	16·1
Alberta	2·0	14·0	16·0
British Columbia	1·0	21·9	22·9
	17·1	84·4	101·5

(c) Family Allowances, Old Age Pensions, and Pensions to Blind Persons

Total expenditures in connection with family allowances for the year 1948-49 are estimated at $271 millions, representing an increase of approximately $7·8 millions over the total for the previous year. In addition, payments for old age pensions and pensions to blind persons are expected to total $67 millions, an increase of approximately $8·9 millions over the 1947-48 total.

The estimated distribution of these payments, by provinces, is as follows:

—	Family Allowances	Old Age Pensions and Pensions to Blind Persons
	(millions)	(millions)
Nova Scotia	$ 14·6	$ 4·9
Prince Edward Island	2·3	0·6
New Brunswick	12·5	4·2
Quebec	89·3	17·3
Ontario	80·1	20·9
Manitoba	15·0	4·3
Saskatchewan	18·5	4·3
Alberta	18·7	4·0
British Columbia	19·4	6·5
Northwest and Yukon Territories	0·6	
	271·0	67·0

(d) Department of National Revenue

The increase of $14·0 millions in the expenditures of this department is attributable largely to a general expansion of the Income Tax Division, as well as to increases in personnel costs in all sections of the department.

(e) Mines and Resources

The increase of approximately \$25·7 millions in the expenditures of this department is due chiefly to subsidy payments to gold mines under the new Emergency Gold Mining Assistance Act, together with some fairly substantial increases in expenditure in connection with National Parks, Immigration Services, and the Indian Affairs Branch. It is estimated that the total of subsidy payments to gold mines during the government's current fiscal year will aggregate approximately \$10 millions.

(f) Public Works

Expenditures on public works are approximately \$16·1 millions higher than the total for the previous year, reflecting a general increase in the costs of operation, maintenance and repairs in the case of public works and buildings, and an increase in the costs of dredging, improvements, etc., in the case of harbours and rivers. The total of this department's expenditures would probably have been much greater had it not been for the policy of deliberately deferring, wherever possible, all expenditures on new construction and new equipment.

(g) Transport

The increase of \$13·3 millions in the expenditures of this department reflects a general increase in the costs of various departmental services. Air Services showed the greatest increase, with expenditures aggregating \$18·4 millions in 1948-49 as compared with a total of \$10·4 millions in the previous year.

(h) Trade and Commerce

Although the total ordinary expenditures of this department show an increase from \$10·8 millions in 1947-48 to \$28·1 millions in 1948-49, the greater part of this increase is due to the transfer to this department during 1948-49 of many of the services or functions which previously came under the Department of Reconstruction and Supply. Included in this transfer, for example, were the Chalk River Project and the National Research Council.

(i) Veterans Affairs

The ordinary expenditures of this department are estimated at \$183·5 millions for the current year, an increase of \$86·2 millions over the 1947-48 total of \$97·3 millions. However, the greater part of this increase is due to a change in method of classifying expenditure. Owing to their continuing nature all costs relating to pensions and treatment of World War II veterans are now classed as "Ordinary Expenditure" whereas in previous years they were included under the heading of "Demobilization and Reconversion Expenditure".

To satisfactorily compare expenditures on veterans affairs as between the two years it is necessary to add together the Department's "Ordinary" expenditures and its "Demobilization and Reconversion" expenditures, and consider the combined total. As shown below the 1948-49 total of "Demobilization and Reconversion" expenditures for this department is estimated at \$88·8 millions, as compared with a total of \$237·4 millions for the preceding year. When these amounts are added to the totals of "Ordinary Expenditure" shown above it will be seen that the aggregate of all expenditures on veterans affairs declined from a total of \$334·7 millions in 1947-48 to a total of \$272·3 millions in 194 -49, i.e. an over-all decrease of \$62·4 millions.

(2) Capital Expenditures

Expenditures charged to capital are estimated at $19·5 millions for the year as compared with a total of $15·7 millions in 1947-48. The principal items in this category are the costs of constructing and improving civil airways and airports, the costs of dredging the St. Lawrence ship channel, and capital expenditures in connection with the Prince Edward Island car ferry and terminals.

(3) Demobilization and Reconversion Expenditures

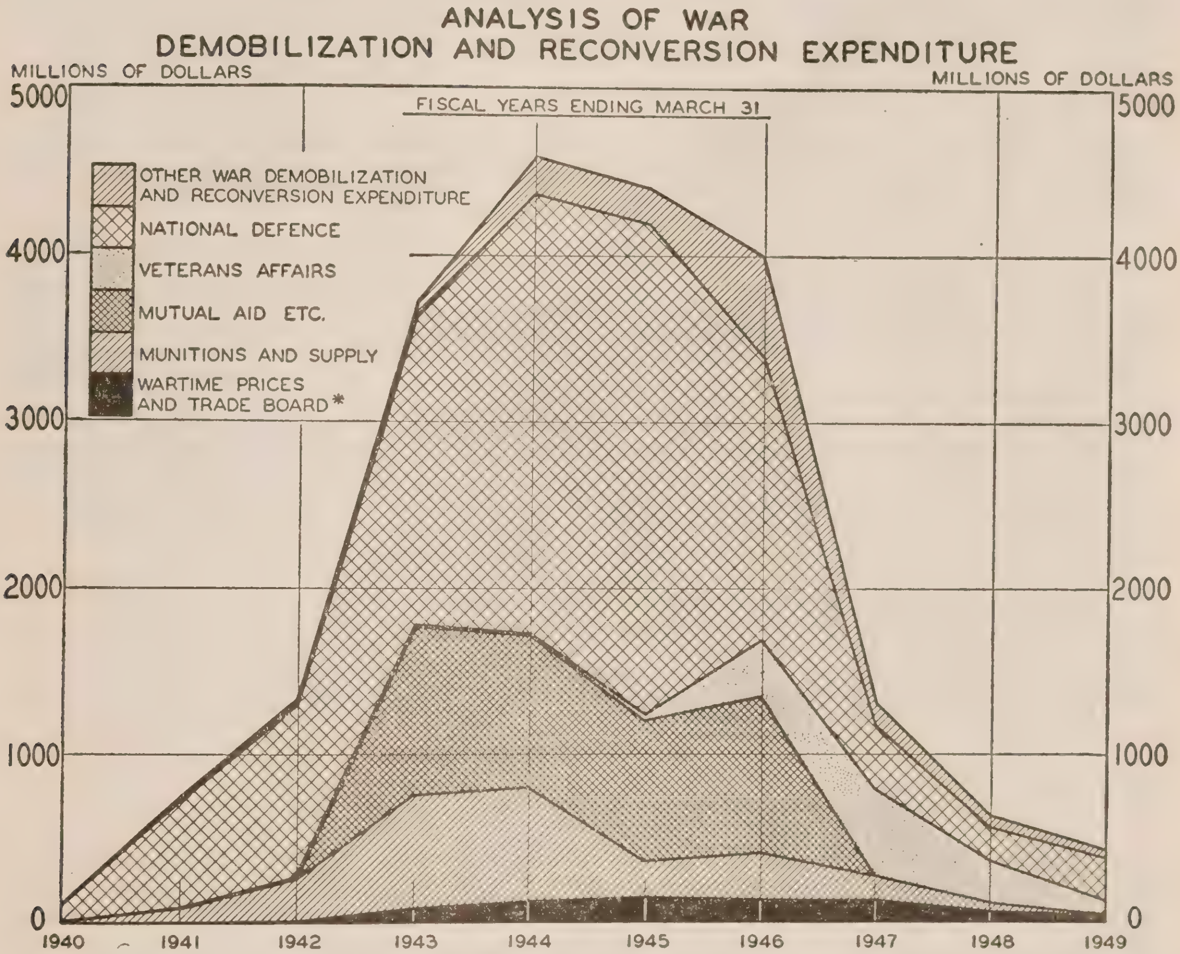
Despite a large increase in the expenditures of the Department of National Defence (which are estimated at $248·5 millions in 1948-49 as compared with a total of $195·4 millions for the previous year) the total of demobilization and reconversion expenditures decreased from $634·4 millions in 1947-48 to $434·4 millions in 1948-49.

The greater part of this decrease occurred in the Veterans Affairs Department, whose total demobilization and reconversion expenditure for 1948-49 is estimated at $88·8 millions as against a total of $237·4 millions for the preceding year. Part of this large decrease is due, of course, to the fact that costs of pensions, and treatment in connection with World War II veterans are, as already mentioned, included under "Ordinary Expenditure", whereas in previous years they were classified as "Demobilization and Reconversion Expenditure". In addition, however, some very substantial reductions did occur in such items as post-discharge rehabilitation benefits ($47·5 millions in 1948-49 as against $78·3 millions in 1947-48), and in war service gratuities and re-establishment credits ($36·2 millions in 1948-49 as against $84·2 millions in 1947-48.)

The total costs involved in administering the Wartime Prices and Trade Board (including costs of subsidies, and payments of drawback claims to millers) declined from $57·1 millions in 1947-48 to $35·8 millions for the current year.

A substantial reduction is also reflected in the expenditures of the Department of Reconstruction and Supply (which show a total of only $1·5 millions in 1948-49 as compared with $62·3 millions for the previous year). Part of this reduction is attributable to a change in the method of recording federal government outlays in connection with housing. Prior to June 30, 1948, construction work on federal housing projects was carried on through the medium of Wartime Housing Limited, and all outlays in this connection were treated as "Expenditure" in the government's accounts. As the various projects were brought to completion, the management and control of the houses was transferred to Central Mortgage and Housing Corporation. On June 30, 1948, in accordance with the 1948 amendments to the National Housing Act, the latter corporation became responsible for all future housing construction as well, and the activities of Wartime Housing Limited were thereupon brought to an end. The 1948 amendments to the National Housing Act also provided that all moneys turned over to Central Mortgage and Housing Corporation for housing purposes were to be treated as advances on the government's books.

As a result of this change in procedure there is nothing in the 1948-49 expenditures of the Department of Reconstruction and Supply which corresponds with the total of $36·5 millions (for Wartime Housing Limited) included in the Department's 1947-48 expenditures. Although amounts totalling approximately $63 millions were turned over to Central Mortgage and Housing Corporation during 1948-49 for construction purposes, these are recorded as advances in the government's books and are not included with the year's expenditures.



*The amounts shown for the Wartime Prices and Trade Board include administrative costs, subsidies due to application of price ceilings, and payments of drawback claims to millers.

Part of the reduction in the expenditures of this department is also attributable to the fact that certain functions or services previously performed by the Department of Reconstruction and Supply were transferred during the year to the Department of Trade and Commerce. Expenditures in connection with the administration, reconversion and operation of Crown companies and/or plants, together with production and transportation subsidies for Canadian steel producers, and costs of research and development of jet engines and aircraft, which were shown under the Department of Reconstruction and Supply in 1947-48, are included this year in the expenditures of the Department of Trade and Commerce.

(4) Special Expenditures

Special expenditures are estimated at \$34·4 millions for the year, a decrease of approximately \$28·7 millions below the 1947-48 total. The larger items making up the 1948-49 total are as follows: deficit of the Prairie Farm Emergency Fund, \$8·9 millions; expenditures under the Prairie Farm Rehabilitation Act, \$2·9 millions; expenditures relating to the St. Mary River Dam project \$1·6 millions; deficit of the Canadian Wheat Board on flaxseed account for the crop year 1947-48, \$4·5 millions; the grant to British Columbia for emergency relief and rehabilitation in connection with the Fraser Valley flood disaster, \$5 millions; and Canada's share of the cost of repairing and reconstructing dykes in the Fraser Valley, \$4·5 millions.

(5) Government Owned Enterprises

Expenditures under this heading comprise the operating deficits of, and non-active loans to, wholly owned governmental enterprises established before the war.

The increase of \$21 millions during the year in this category of expenditure was due largely to an increase of \$17·6 millions in the deficit of the Canadian National Railways (which totalled \$33·5 millions for the calendar year 1948 as compared with a total of \$15·9 millions for the year 1947). In calculating its over-all deficit for the year the C.N.R. includes all interest charges paid on governmental advances. It should perhaps be noted, therefore, that although the government's 1948-49 expenditures reflect the absorption by the government of the C.N.R.'s total 1948 deficit of \$33·5 millions, Federal revenues include (under the classification "Return on Investments") an amount of \$21·2 millions received from the railway company by way of interest on advances.

Also included under the general classification of expenditures in connection with Government Owned Enterprises are the 1948 operating deficit of Trans-Canada Air Lines (\$2·9 millions), the 1948 operating deficit of the Prince Edward Island Car Ferry (\$1·2 millions), and losses of, and non-active loans to, the National Harbours Board (\$2·0 millions).

(6) Other Charges, Including the Write Down of Assets

Total expenditures for the year in this category are estimated at \$81·9 millions, as compared with a total of \$83·7 millions for 1947-48. The largest item in both years' totals is an amount of \$75 millions transferred to the general reserve to meet possible losses on ultimate realization of active assets. This reserve was first established in 1940-41, and \$25 millions was set aside annually from that time up to and including the fiscal year 1946-47. In 1947-48, and again this year, the annual provision was increased to \$75 millions—a larger provision being deemed advisable in order to offset the charges that have been made to the reserve during recent years, and also in order to bring the reserve to a level more in keeping with the magnitude of the government's active assets and the proportion thereof represented by loans to overseas countries.

Also included under the classification "Other Charges", are the annual write-off of Veterans' Land Act Loans (\$1·2 millions) and the reserve provisions for conditional benefits under the Veterans' Land Act (\$5·7 millions).

6. ESTIMATED BALANCE SHEET POSITION AT MARCH 31, 1949

The following table presents, in summary form, the Government's estimated balance sheet position as at March 31, 1949, together with comparable figures as at March 31, 1948.

SUMMARY OF THE GOVERNMENT'S BALANCE SHEET POSITION AS AT MARCH 31, 1949 AND MARCH 31, 1948

(In millions of dollars)

—	Fiscal Year Ended March 31		Increase or Decrease (–)
	1949 (Estimated)	1948	
	$	$	$
LIABILITIES			
Floating Debt	459·0	458·6	0·4
Deposit and Trust Accounts	110·6	115·7	–5·1
Annuity, Pension, Insurance and Guaranty Accounts	704·1	610·7	93·4
Deferred Credits	3·0	4·0	–1·0
Sundry Suspense Accounts	60·2	31·4	28·8
Province Debt Accounts	11·9	11·9	
Reserve for conditional benefits—Veterans' Land Act	13·3	7·6	5·7
Funded Debt	15,585·0	15,957·4	–372·4
Total Liabilities	16,947·1	17,197·3	–250·2
ACTIVE ASSETS			
Cash	72·2	38·0	34·2
Departmental Working Capital Advances	11·0	11·7	–0·7
Loans and Advances	4,273·7	3,676·7	597·0
Investments	951·5	1,175·2	–223·7
Province Debt Accounts	2·3	2·3	
Deferred Charges	65·7	72·7	– 7·0
Sundry Suspense Accounts	20·0	20·0	
Total Active Assets	5,396·4	4,996·6	399·8
Less reserve for possible losses on ultimate realization of active assets	–245·9	–170·9	75·0
Net Active Assets	5,150·5	4·825·7	324·8
Net Debt (Excess of Liabilities over Net Active Assets)	11,796·6	12,371·6	–575·0

It is estimated that the aggregate liabilities of the Government at March 31, 1949, will amount to approximately $16,947 millions, a reduction of $250 millions from the total at the end of the previous year. Outstanding funded debt (which includes bonds, treasury bills, deposit certificates, and the estimated refundable portion of excess profits taxes) accounts for $15,585 millions, or approximately 92 per cent of the over-all total. A complete statement of the Government's unmatured funded debt at March 31, 1949, giving details of interest rates, dates of maturity, annual interest charges, and principal amounts for each individual loan, may be found in tabular form at the back of this appendix.

The other principal items on the liability side of the balance sheet are as follows: floating debt, (which consists of outstanding cheques and interest, matured funded debt, and similar demand liabilities), $459 millions; deposit and trust funds (which comprise sundry funds deposited with the Receiver General or held in trust for various purposes), $110·6 millions; annuity, pension, insurance and guaranty accounts, $704·1 millions; deferred credits (balances whose ultimate accounting treatment is known, but which are held until certain conditions are met), $3 millions; sundry suspense accounts (where some uncertainty as to disposition exists), $60·2 millions; province debt accounts (settlements arising from agreements at the time of Confederation), $11·9 millions; and reserve for conditional benefits under the Veterans' Land Act, $13·3 millions.

Offsetting these liabilities (and in a measure explaining their existence, because a substantial portion of the total debt is attributable to the loans, advances, and investments which form a large part of the assets) are the Govern-

ment's Active Assets. Essentially these consist of assets which yield interest, profits or dividends, together with very liquid assets such as cash and departmental working funds.

It is estimated (although some of the items are very difficult to forecast) that the totals of the principal asset classifications at March 31, 1949, will be approximately as follows: cash, \$72·2 millions; departmental working capital advances, \$11 millions; recoverable loans and advances, \$4,273·7 millions; investments, \$951·5 millions; province debt accounts, \$2·3 millions; deferred charges (the cost of loan flotations in process of being amortized over the life of the loans), \$65·7 millions; and sundry suspense accounts, \$20 millions.

The reserve for possible losses on ultimate realization of active assets, which now stands on the books at \$245·9 millions, is shown on the balance sheet as a deduction from total Active Assets.

7. INDIRECT OR CONTINGENT LIABILITIES

It should be noted that the balance sheet as summarized above does not reflect any of the government's indirect or contingent liabilities. Included under this heading, for example, are the government's guarantees of certain securities issued by various government owned enterprises such as the Canadian National Railways, the Canadian National (West Indies) Steamships Limited, and various Harbours Commissions; the guarantee of deposits maintained by the chartered banks in the Bank of Canada; guarantees of certain loans made by chartered banks to veterans or farmers for certain authorized purposes; guarantees under The Export Credits Insurance Act; and certain commitments under housing legislation.

The following table gives details of the bonds and debenture stocks guaranteed by the government, and also indicates the nature and approximate extent of the government's other guarantees and contingent liabilities:

DETAILS OF BONDS AND DEBENTURE STOCKS GUARANTEED BY THE GOVERNMENT AS AT MARCH 31, 1949

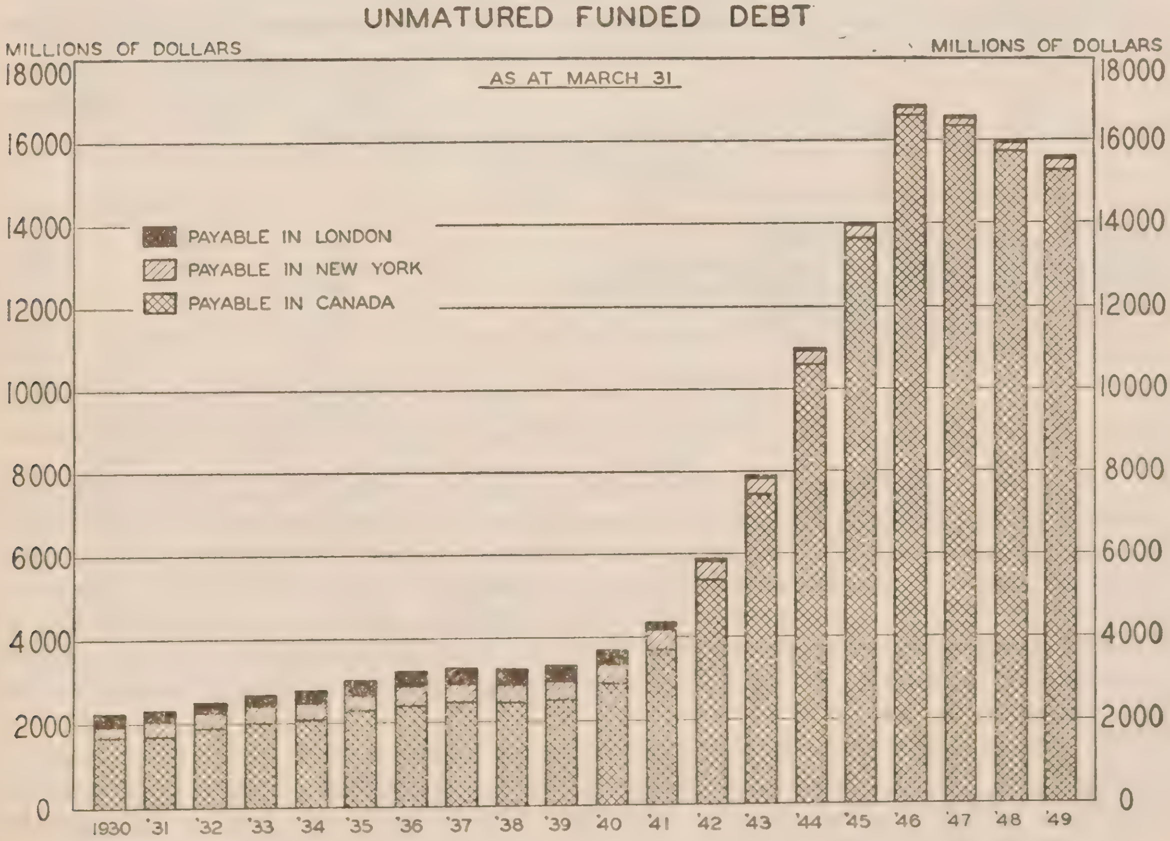
Date of Maturity	Issue	Interest Rate	Estimated Amount Outstanding
		%	$
Sept. 1, 1951..	Canadian National	4½	48,022,000
Aug. 1, 1952..	Saint John Harbour Commissioners	5	667,953
July 10, 1953..	Canadian Northern	3	1,162,768
Feb. 1, 1954..	Canadian National	5	50,000,000
Mar. 1, 1955..	Canadian National (West Indies) Steamships Limited	5	9,400,000
June 15, 1955..	Canadian National	4¾	48,496,000
Feb. 1, 1956..	Canadian National	4½	67,368,000
July 1, 1957..	Canadian National	4½	64,136,000
July 20, 1958..	Canadian Northern	3½	5,636,507
Jan. 15, 1959..	Canadian National	3	35,000,000
May 4, 1960..	Canadian Northern Alberta	3½	550,727
May 19, 1961..	Canadian Northern Ontario	3½	3,597,518
Jan. 1, 1962..	Grand Trunk Pacific	3	26,465,130
Jan. 1, 1962..	Grand Trunk Pacific	4	7,999,074
Jan. 3, 1966..	Canadian National	3	35,000,000
Jan. 2, 1967..	Canadian National	2¾	50,000,000
Oct. 1, 1969..	Canadian National	5	57,728,500
Nov. 1, 1969..	Harbour Commissioners of Montreal	5	19,000,000
Feb. 1, 1970..	Canadian National	5	17,338,000
Various dates 1949–54	City of Saint John Debentures assumed by Saint John Harbour Commissioners	Various	88,329
Perpetual	Grand Trunk Debenture Stock	5	1,016,092
"	Great Western Debenture Stock	5	499,709
"	Grand Trunk Debenture Stock	4	5,446,783
"	Northern Railway of Canada Debenture Stock	4	22,591
			554,641,681

DETAILS OF OTHER OUTSTANDING GUARANTEES AND CONTINGENT LIABILITIES

Deposits maintained by the chartered banks in the Bank of Canada (Feb. 28, 1949)	$ 530,960,371
Bank advances, re Province of Manitoba Savings Office (Feb. 28, 1949)	4,040,078
Province of Manitoba Treasury Bill (Feb. 28, 1949)	3,300,000
Loans made by chartered banks under the Farm Improvement Loans Act, 1944 (Jan. 31, 1949)	6,229,154
Loans made by chartered banks under the Veterans' Business and Professional Loans Act (Dec. 31, 1948)	1,586,223
Guaranteed Bank Loans—Acadia Coal Company (Feb. 28, 1949)	584,000
Guarantees under Part II of The Export Credits Insurance Act (Feb. 28, 1949)	11,610,917
Loans made by approved lending institutions under The Home Improvement Loans Guarantee Act, 1937 (Dec. 31, 1948)	26,138
Loans made by approved lending institutions under The Home Extension Plan (Dec. 31, 1948)	612
Loans made by approved lending institutions under Part IV of the National Housing Act, 1944, for home extensions (Dec. 31, 1948)	5,704
Loans made by approved lending institutions under Dominion and National Housing Acts	Indeterminate
Guarantees of land assembly projects under National Housing Act	726,559

It will be noted that the total of guaranteed bonds and debentures outstanding at March 31, 1949, is estimated at $554·6 millions, an increase of approximately $32·7 millions over the amount outstanding at March 31, 1948. This increase resulted from the issue by the Canadian National Railways of $35 millions in 3% bonds dated January 3, 1949, and maturing January 3, 1966, and the redemption on April 1, 1948, of New Westminster Harbour Commissioners' $4\frac{3}{4}$% bonds in the amount of $·7 millions, together with certain other smaller redemptions.

UNMATURED FUNDED DEBT



8. ANALYSIS OF CHANGES IN PRINCIPAL LIABILITY CLASSIFICATIONS DURING THE YEAR

The most significant change on the liability side of the balance sheet during the year was the substantial reduction which took place in the government's outstanding funded debt. Total funded debt decreased from $15,957·4 millions at March 31, 1948, to an estimated total of $15,585·0 millions at March 31, 1949—representing an over-all net reduction of $372·4 millions. Details of the various loan redemptions and new borrowings which resulted in this net decrease are set out more fully in section 10 of this Part.

The only other important changes on the liability side of the balance sheet were the following: annuity, pension, insurance and guaranty accounts showed an increase of $93·4 millions during the year, largely as a result of an increase of $66 millions in government annuities and an increase of $14·3 millions in the permanent services pension fund; sundry suspense accounts showed an increase of $28·8 millions during the year, attributable largely to collections of provincial taxes on corporation incomes.

9. ANALYSIS OF CHANGES IN PRINCIPAL ASSET CLASSIFICATIONS DURING THE YEAR

(a) Changes in Loans and Advances

The total of recoverable loans and advances increased from $3,676·7 millions at March 31, 1948, to an estimated total of $4,273·7 millions at March 31, 1949—representing an over-all net increase of $597 millions during the year. The following table summarizes the changes in outstanding loans and advances during the year by principal classifications:

DETAILS OF ACTIVE LOANS AND ADVANCES

(In millions of dollars)

—	Balance at March 31		Increase or Decrease (−)
	1949 (Estimated)	1948	
	$	$	$
Loans to Canadian National Railways	764·8	760·7	4·1
Advances to the Foreign Exchange Control Board	1,100·0	650·0	450·0
Loans and Advances to Sundry Government Agencies	380·9	304·7	76·2
Loans to Provincial and Municipal Governments	102·5	107·8	−5·3
Loans to the United Kingdom and Other Governments	1,918·8	1,846·0	72·8
Miscellaneous Loans and Advances	6·7	7·5	−0·8
	4,273·7	3,676·7	597·0

It can be seen that the substantial advances which the Government was making to the Foreign Exchange Control Board during this period constituted the principal reason for the large net increase in the "Loans and Advances" classification. These advances represent amounts transferred to the Board to enable it to finance the purchase of gold and foreign exchange. The addition of $450 millions during the year in the total of these advances is indicative of the satisfactory manner in which Canada's exchange reserves were increasing during this period.

The amounts shown as loans to the Canadian National Railways represent advances by the Government to the C.N.R. for capital expenditures (including purchase of railway equipment), for debt retirement, and for the temporary financing of current operations.

The balances shown as loans and advances to sundry government agencies represent amounts transferred to various government agencies of an independent or quasi-independent nature for working capital, construction, and other purposes. The following table gives details of the principal agencies included under this classification:

DETAILS OF LOANS AND ADVANCES TO SUNDRY GOVERNMENT AGENCIES

(In millions of dollars)

—	Balance at March 31		Increase or Decrease (−)
	1949 (Estimated)	1948	
	$	$	$
Advances under the Soldier Settlement and Veterans' Land Act...	166·2	145·5	20·7
National Harbours Board....	85·3	85·1	0·2
Central Mortgage and Housing Corporation....	93·0	22·5	70·5
Commodity Prices Stabilization Corporation....	5·6	20·7	−15·1
Sundry Products and Prices Support Accounts....	8·0	17·4	−9·4
Miscellaneous Crown Companies....	22·8	13·5	9·3
	380·9	304·7	76·2

Under the heading "Loans to Provincial and Municipal Governments" are grouped loans to provinces made originally under Relief Acts and other legislation, and loans to municipalities under the Municipal Improvements Assistance Act.

The next category of loans, namely "Loans to the United Kingdom and Other Governments" consists of loans to the Government of the United Kingdom under the authority of The War Appropriation (United Kingdom Financing) Act, 1942, and The United Kingdom Financial Agreement Act, 1946, loans to other countries under Part II of The Export Credits Insurance Act, and miscellaneous foreign loans. Details of the changes in each of these individual classifications are as follows:

DETAILS OF LOANS TO THE UNITED KINGDOM AND OTHER GOVERNMENTS

(In millions of dollars)

—	Balance at March 31		Increase or Decrease (−)
	1949 (Estimated)	1948	
	$	$	$
Loans to the United Kingdom under The War Appropriation (United Kingdom Financing) Act, 1942....	297·1	331·5	−34·4
Loans to the United Kingdom under The United Kingdom Financial Agreement Act, 1946....	1,045·0	1,008·0	37·0
Advances under The Export Credits Insurance Act, Part II....	534·5	466·3	68·2
Miscellaneous Advances....	42·2	40·2	2·0
	1,918·8	1,846·0	72·8

It is estimated that during the year ending March 31, 1949 the United Kingdom will have repaid $34·4 millions of the loan previously granted under the provisions of The War Appropriation (United Kingdom Financing) Act, 1942, leaving a balance of $297·1 millions still outstanding on this account at the end of the year. At the same time additional advances of $37 millions were made to the United Kingdom Government as part of the $1,250 million loan authorized by The United Kingdom Financial Agreement Act of 1946. The total of amounts advanced under this particular agreement now stands at $1,045 millions.

Advances under Part II of The Export Credits Insurance Act represent loans to certain foreign countries to assist them in purchasing goods and services in Canada. It is estimated that the total of outstanding advances under this Act will amount to $534.5 millions at March 31, 1949, representing a net increase of $68·2 millions over the balance outstanding at March 31, 1948. The following table summarizes the changes in these advances during the year according to recipient governments:

ADVANCES TO FOREIGN GOVERNMENTS UNDER PART II OF THE EXPORT CREDITS INSURANCE ACT

(In millions of dollars)

—	Total Outstanding at March 31, 1948	Additional Amounts Advanced during 1948-49	Interest Accrued (Consolidated with Advances)	Repayments during 1948-49	Total Outstanding at March 31 1949 (Estimated)
	$	$	$	$	$
Belgium	65·6	1·0	0·1	2·1	64·6
China	39·5	11·5	1·2	1·7	50·5
Czechoslovakia	15·2	1·2	0·3	....	16·7
France	206·3	35·9	8·9	8·4	242·7
Netherlands	104·8	14·0	5·1	5·8	118·1
Netherlands Indies	11·6	3·4	0·4	....	15·4
Norway	20·4	3·2	....	....	23·6
Union of Soviet Socialist Republics	2·9	....	....	....	2·9
	466·3	70·2	16·0	18·0	534·5

(b) Changes in Investments

The total of the government's investments decreased from $1,175·2 millions at March 31, 1948 to $951·5 millions at March 31, 1949, representing an over-all net reduction of $223·7 millions during the year. This decrease was due to the reduction of $224·4 millions during the year in Securities Investment Account. As previously mentioned, this account is the one used to record temporary holdings by the government of its own securities. Such securities may be held either as temporary investments of surplus cash balances, or until the securities themselves mature or are cancelled.

A summary of the principal items making up the investment total which appears on the balance sheet is shown in the following table:

SUMMARY OF INVESTMENTS

(In millions of dollars)

—	Balance at March 31		Increase or Decrease (−)
	1949 (Estimated)	1948	
Bank of Canada—Capital Stock	5·9	5·9	
Central Mortgage and Housing Corporation—Capital Advances	25·0	25·0	
Canadian Farm Loan Board—Bonds and Capital Stock	22·2	21·1	1·1
Balances receivable under Agreements of Sale of Crown Assets	11·2	11·6	−0·4
Canada's Subscription to the Capital of the International Monetary Fund	300·0	300·0	
Canada's Subscription to the Capital of the International Bank for Reconstruction and Development	65·0	65·0	
Securities Investment Account	462·0	686·4	−224·4
Miscellaneous	60·2	60·2	
	951·5	1,175·2	−223·7

(c) Changes in Reserve for Possible Losses on Ultimate Realization of Active Assets

As mentioned earlier a transfer of $75 millions was made to this reserve during the year with a corresponding amount being charged to "Expenditure" in the government's accounts. The balance to the credit of the reserve now stands at $245·9 millions.

10. SUMMARY OF SECURITY ISSUES AND REDEMPTIONS DURING THE YEAR

During the fiscal year ending March 31, 1949, government obligations totalling $3,081·7 millions matured or were called for redemption. Of this amount a total of $2,941·6 millions represented redemptions in Canada, the financing of which was effected as follows:

	(millions)
By refunding or conversion into new issues.............	$ 2,233·3
From proceeds of new borrowing:	
Sale of Canada Savings Bonds Series III...........	236·0
From cash balances.................................	472·3
	$ 2,941·6

The redemption of $472·3 millions out of cash balances represents the net reduction achieved during the year in the total of Canadian debt.

The remaining* $140 millions of the over-all redemption figure of $3,081·7 millions referred to above represents the repayment of certain U.S. dollar loans previously made to the government by the Export-Import Bank of Washington ($50 millions of which were advanced during the fiscal year 1947-48, and the remaining $90 millions of which were advanced during the early part of the present fiscal year). This repayment of $140 millions was financed out of the proceeds of a new issue of $150 million 3% fifteen year bonds which were sold to three United States insurance companies in August 1948 at par.

The $90 millions in U.S. dollars which were obtained as a result of this year's drawings on the Export-Import Bank loan, together with the $10 millions in U.S. dollars remaining out of the proceeds of the new $150 million loan, were transferred during the year to the Foreign Exchange Control Board and added to the nation's exchange reserves. The net effect, during 1948-49, of all these U.S. dollar transactions was to increase the total funded debt payable in New York by $100 millions, and at the same time to increase the country's exchange reserves by an equivalent amount.

It can be seen from the above analysis that the over-all net reduction in the government's outstanding funded debt during the year amounted to $372·4 millions—i.e. the net reduction of $472·3 millions in Canadian debt together with the reduction of $0·1 millions in sterling debt, and less the increase of $100 millions in funded debt payable in New York.

More complete details of redemptions and new issues of securities during the year are set out in tables on the following two pages.

*Apart from certain minor redemptions of sterling debt totalling $68,514.

REDEMPTION OF FUNDED DEBT DURING FISCAL YEAR ENDED MARCH 31, 1949

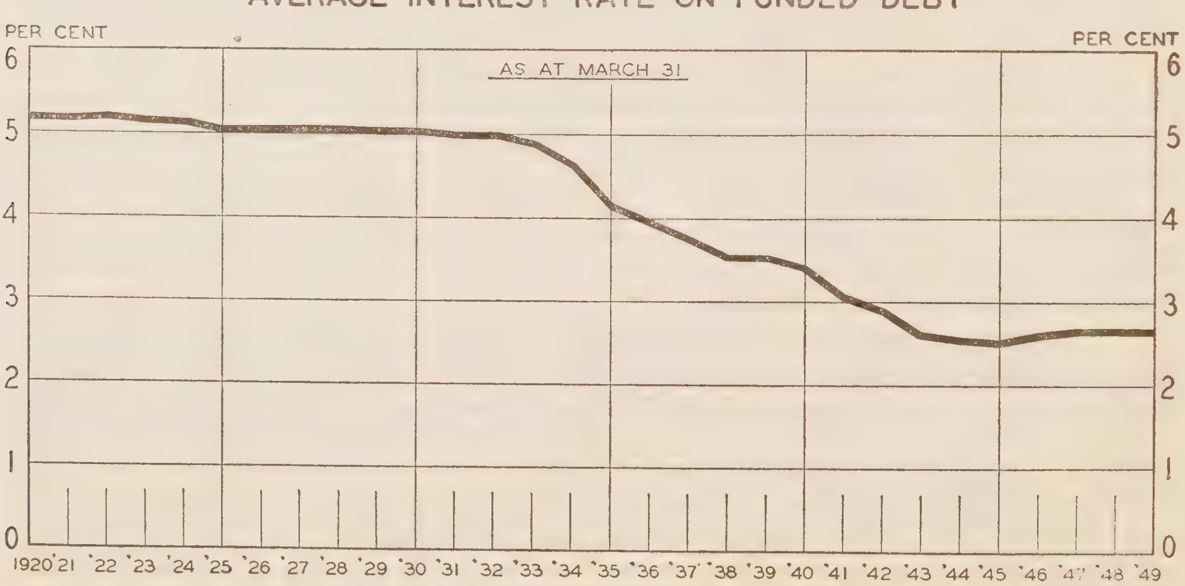
Maturity or Call Date	Interest Rate	Where Payable	Amount
	%		$
May 1, 1948	5/8	Canada	200,000,000
July 1, 1948	4	Canada	33,293,471
Aug. 13, 1948[1]	2½	New York	140,000,000
Sept. 1, 1948	5/8	Canada	550,000,000
Sept. 3, 1948	5/8	Canada	100,000,000
Nov. 1, 1948	5/8	Canada	200,000,000
Nov. 1, 1948	1¾	Canada	344,267,000
Nov. 1, 1948[2]	4½	Canada	276,687,600
Nov. 15, 1948[3]	3¼	Canada	60,000,000
Feb. 1, 1949[4]	3¼	Canada	49,995,800
Mar. 1, 1949	5/8	Canada	550,000,000
Mar. 4, 1949	5/8	Canada	100,000,000
Non-Interest Bearing Certificates		Canada	34,915
War Savings Certificates	3	Canada	50,826,494
Various[5]		London	68,514
Canada Savings Bonds Series I and II	2¾	Canada	140,781,000
Total Bonds and Certificates			$2,795,954,794
Repayment of Refundable Portion of Income and Excess Profits Taxes			285,749,000
Total Redemptions of Debt			$3,081,703,794

Total payable in Canada	$2,941,635,280
Total payable in New York	140,000,000
Total payable in London	68,514
	$3,081,703,794

(1) Export-Import Bank Loan.
(2) Maturity Date Nov. 1, 1958, called for redemption Nov. 1, 1948.
(3) Maturity Date Nov. 15, 1951, called for redemption Nov. 15, 1948.
(4) Second call of First War Loan.
(5) These issues were vested by the Treasury of the United Kingdom in August 1941. Amounts purchased during the fiscal year were cancelled.

It may be of interest to note that the average coupon rate on the government's outstanding funded debt at the close of the current year is estimated at 2·64%. This compares with an average rate of 2·66% at the close of the last fiscal year, and an average rate of 3·52% as at March 31, 1939.

AVERAGE INTEREST RATE ON FUNDED DEBT*



*Funded debt includes bonds, treasury bills, deposit certificates, and the estimated refundable portion of income and excess profits taxes.

NEW SECURITY ISSUES DURING FISCAL YEAR ENDED MARCH 31, 1949

—	Issue Date	Maturity Date	Interest Rate	Price to Govern-ment	Yield at Price to Govern-ment	Total Amount Issued	Renewals or Reconversion Included in Amount Issued	Amount Issued for Cash
			%		%	$	$	$
Payable in Canada								
Issued to Chartered Banks								
Deposit Certificates	Sept. 3, 1948	Mar. 4, 1949	$\frac{5}{8}$	100·00	0·625	100,000,000	100,000,000	
Three Year Bonds	Nov. 1, 1948	Nov. 1, 1951	$1\frac{3}{4}$	100·00	1·75	250,000,000	250,000,000	
Deposit Certificates	Mar. 4, 1949	Sept. 2, 1949	$\frac{3}{4}$	100·00	0·75	100,000,000	100,000,000	
						450,000,000	450,000,000	
Issued to Bank of Canada								
Six Months Treasury Notes	May 1, 1948	Nov. 1, 1948	$\frac{5}{8}$	100·00	0·625	200,000,000	200,000,000	
Six Months Treasury Notes	Sept. 1, 1948	Mar. 1, 1949	$\frac{5}{8}$	100·00	0·625	550,000,000	550,000,000	
Three Year Bonds	Nov. 1, 1948	Nov. 1, 1951	$1\frac{3}{4}$	100·00	1·75	250,000,000	250,000,000	
Six Months Treasury Notes	Nov. 1, 1948	May 1, 1949	$\frac{5}{8}$	100·00	0·625	200,000,000	200,000,000	
Six Months Treasury Notes	Mar. 1, 1949	Sept. 1, 1949	$\frac{3}{4}$	100·00	0·75	550,000,000	550,000,000	
						1,750,000,000	1,750,000,000	
Issued to General Public								
Canada Savings Bonds, Series III—Net	Nov. 1, 1948	Nov. 1, 1958	$2\frac{3}{4}$	99·375	2·82	236,064,000	....	236,064,000
Issued to Prairie Provinces								
School Lands Debentures	July 1, 1948	July 1, 1949	4	100·00	4·00	33,293,471	33,293,471	
Total issues payable in Canada	....	....	....	....	....	2,469,357,471	2,233,293,471	236,064,000
Payable in United States								
Issued to the Export-Import Bank of Washington								
One, Two and Three Year Notes	Various	Various	$2\frac{1}{2}$	100·00	2·50	90,000,000	....	90,000,000
Issued to Insurance Companies								
Fifteen Year Bonds	Aug. 1, 1948	Aug. 1, 1963	3	99·90	3·01	150,000,000	140,000,000	10,000,000
Total issues payable in United States	....	....	....	....	....	240,000,000	140,000,000	100,000,000
Grand Total	....	....	....	....	....	2,709,357,471	2,373,293,471	336,064,000

SUPPLEMENTARY DETAILED TABLES

Revenues

Expenditures

Loans and Advances and Investments

Unmatured Funded Debt

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
Tax Revenue—					
Direct Taxes—					
Direct Taxes on Incomes—					
Individual Income Tax	767 755	691,586	694,530	659,828	771,000
Tax on Interest and Dividends	27,053	26,824	28,428	33,929	40,500
Taxes on Rents and Royalties	1,546	1,486	1,708	1,960	2,200
Corporation Income Tax	276,404	217,834	238,792	364,131	490,000
Excess Profits Tax	465,805	494,196	448,698	227,030	40,000
Total Direct Taxes on Incomes	1,538,563	1,431,926	1,412,156	1,286,878	1,343,700
Succession Duties	17,251	21,447	23,576	30,828	25,500
Total Direct Taxes	1,555,814	1,453,373	1,435,732	1,317,706	1,369,200
Indirect Taxes—					
Customs Import Duties	115,091	128,877	237,355	293,012	225,000
Excise Duties—					
Spirits, malt, etc	72,133	91,274	97,820	97,675	105,000
Cigars, cigarettes and tobacco	83,142	98,228	101,163	102,116	104,300
Licences	37	39	40	37	38
Less refunds	−3,390	−2,815	−2,979	−3,034	−3,338
Total Excise Duties	151,922	186,726	196,044	196,794	206,000
Excise Taxes—					
Taxes on Commodities—					
Sales Tax	404,109	326,253	328,073	383,012	391,490
War Exchange Tax	98,164	41,198	338	...	...
Automobiles, rubber tires and tubes	6,480	6,701	16,340	31,949	37,440
Beverages	19,442	16,657	18,635	23,767	27,800
Candy and chewing gum	12,874	11,904	13,277	18,279	21,540
Cigars, cigarettes and tobacco	62,306	70,229	76,318	68,606	76,600
Cigarette papers and tubes	6,658	4,645	6,943	6,419	6,840
Electric and gas appliances	4,057	1,272	7	2,824	3,890
Furs	5,217	4,976	3,102	3,139	3,550
Gasoline	29,671	29,836	36,220	2,208	...
Matches and lighters	3,117	3,675	4,088	3,967	3,720
Phonographs, radios and tubes	1,112	646	2,526	5,325	3,390
Special excise on importations	545	787	1,185	2,113	280
Sugar	11,744	9,974	11,339	10,572	...
Toilet preparations and soaps	6,347	7,107	7,522	7,146	7,960
Trunks, bags, luggage, etc	4,134	4,711	5,710	4,962	5,610
Wines	1,772	2,066	2,394	2,342	2,070
Sundry	2,977	3,811	5,109	4,716	4,320
Taxes on Amusements and Services—					
Amusements	12,284	13,387	14,552	15,369	2,580
Tax on pari-mutuel bets	1,904	2,188	2,510	2,519	...
Transportation and communication	24,205	26,893	27,931	27,531	28,580
Stamps, including payment of taxes on jewellery, chinaware, cabaret attendance, etc	18,296	21,697	24,437	24,300	22,550
Licences, interest and miscellaneous	369	302	313	376	290
Less refunds (mainly sales tax)	−194,719	−114,005	−29,845	−10,683	−13,100
Total Excise Taxes	543,065	496,910	579,024	640,758	637,400
Other Taxes—					
Chartered bank note circulation	350	270	220	188	160
Insurance Companies	7,182	7,951	8,796	3,004	3,300
Miscellaneous	702	751	690	613	500
Total Indirect Taxes	818,312	821,485	1,022,129	1,134,369	1,072,360
Total Revenue from Taxes	2,374,126	2, 4,858	2,457,861	2,452,075	2,441,560

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
NON-TAX REVENUE—					
Post Office	66,056	68,613	72,978	77,759	79,800
Return on Investments	60,749	70,915	69,439	75,800	106,000
Bullion and coinage	4,586	4,954	2,098	1,731	3,300
Premium, discount and exchange	....	....	....	3,736	....
Other	14,080	16,322	16,355	18,745	21,000
Total Non-tax Revenue	145,471	160,804	160,870	177,771	210,100
Total Ordinary Revenue	2,519,597	2,435,662	2,618,731	2,629,846	2,651,660
SPECIAL RECEIPTS AND CREDITS—					
Refunds of previous years' Special Expenditure	53	20	10	7	15
Special Receipts—War and Demobilization	352,918	626,616	412,763	225,757	113,814
Donations to the Crown	177	161	170	138	60
Canadian Wheat Board—					
Reduction in Reserve Account	589	....	....	....	....
Surpluses in certain special accounts	2,625	....	1,762	16	....
Canadian National Railways—					
Net credit due to increase in Canadian National Railways Securities Trust Stock (contra)	22,400	22,631	....	....	....
Investment in Crown plants transferred to Active Assets	7,143	174	2,053	3,704	2,454
	385,905	649,602	416,758	229,622	116,343
Capital and Non-active Accounts—					
Capital Accounts—					
Refunds of previous years' expenditure	728	376	110	61	80
Non-active Accounts—					
National Harbours Board, reduction of indebtedness	19	....	10	82	....
1936 and 1937 Saskatchewan Seed Grain Loans Guarantees—					
Adjustment pursuant to The Western Provinces Treasury Bills and Natural Resources Settlement Act, 1947	....	....	....	9,773	....
Canadian National (West Indies) Steamships, Limited, reduction of indebtedness	549	....	1,105	256	80
Transfer to Consolidated Deficit Account from Capital Accounts—Airways and Airports (Airways facilities, State of Michigan, U.S.A.)	....	....	....	158	....
Write-downs to Consolidated Deficit Account—					
Canadian National Railways Securities Trust Stock—reduction due to retirement of equipment during calendar years 1946 and 1947	....	....	1,308	1,885	....
Seed Grain and Relief Loans	36	45	54	63	60
Total Capital and Non-active Accounts	1,332	421	2,587	12,278	220
Total Special Receipts and Credits	387,237	650,023	419,345	241,900	116,563
TOTAL REVENUE	2,906,834	3,085,685	3,038,076	2,871,746	2,768,223
Less estimated amount of refundable Income and Excess Profits Taxes	219,500	72,500	30,200	....	....
NET TOTAL REVENUE	2,687,334	3,013,185	3,007,876	2,871,746	2,768,223

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
ORDINARY EXPENDITURE					
Agriculture	9,424	10,319	13,300	16,311	20,677
Auditor General's Office	361	379	390	395	546
Civil Service Commission	461	479	593	665	765
External Affairs	1,910	4,522	5,128	7,195	9,719
Finance—					
Interest on Public Debt	318,995	409,134	464,395	455,455	463,689
Cost of Loan Flotations and Annual Amortization of Bond Discounts and Commissions	20,679	22,311	12,139	10,914	9,838
Premium paid on redemption of called bonds	....	5,842	271	35	27
Subsidies to Provinces	14,445	14,447	14,383	33,394	17,094
Miscellaneous Grants and Contributions	531	617	95	113	147
Civil Pensions and Superannuation	325	293	253	224	194
Government contribution to Superannuation Fund	2,341	2,696	3,161	3,488	4,050
Old Age Pensions, including pensions to blind persons	32,187	(1) —	(1) —	(1) —	(1) —
Premium, Discount and Exchange	16,348	14,734	9,172	....	....
Compensation to Provinces under Dominion-Provincial Taxation Agreements—					
Income and Corporation Taxes	82,977	94,343	94,380	122,497	84,386
Gasoline Tax	10,357	3,709	....	....	....
Administrative and Sundry Expenditure	4,724	7,569	9,599	11,313	14,871
Fisheries	2,159	3,262	3,599	4,097	5,280
Governor General and Lieutenant-Governors	223	227	252	239	245
Insurance	185	199	212	237	281
Justice	2,696	2,848	3,194	3,917	4,102
Penitentiaries	2,936	3,258	3,806	4,564	5,950
Labour	1,446	1,620	2,010	2,319	4,295
Unemployment Insurance Act, 1940—					
Administration	5,113	6,185	7,496	17,641	19,035
Government Contribution	12,746	12,514	15,200	17,500	20,195
Government Annuities—					
Payments to maintain reserve	257	294	977	332	10,000
Legislation—					
House of Commons	1,612	2,235	2,786	3,022	2,724
Library of Parliament	72	74	90	103	130
Senate	485	727	881	946	748
General	95	98	167	270	375
Chief Electoral Officer, including elections	179	3,091	144	151	285
Mines and Resources—					
Administration	168	164	173	268	361
Immigration	1,309	1,524	2,047	2,665	6,100
Indian Affairs	6,162	4,466	5,948	7,180	10,652
Lands, Parks and Forests	1,831	2,689	4,962	....	....
Lands and Development Services	....	....	....	5,630	12,561
Surveys and Engineering	1,610	1,323	3,444	....	....
Special Projects	....	....	....	2,554	130
Mines and Geological Survey	1,216	1,303	1,847	....	....
Mines, Forests and Scientific Services	....	....	....	5,318	19,460
Munitions and Supply	19	....	....	....	....
Dominion Fuel Board Administration coal subsidies and subventions	2,737	(2) —	(2) —	(2) —	....
National Defence—					
Administration and sundry services	67	127	253	615	1,035
Pensions—Militia Pensions Act	(3) —	(3) —	(3) —	(3) —	4,879
Government contribution to Permanent Forces Pension Fund	....	....	....	(4) —	8,004

(1) See Department of National Health and Welfare.
(2) See Department of Reconstruction and Supply.
(3) Included under Veterans Affairs.
(4) Included under Demobilization and Reconversion—Army, Navy and Air Services.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Continued*

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
ORDINARY EXPENDITURE—Con.					
National Health and Welfare	1,725	7,294	8,616	10,815	14,261
Old age pensions, including pensions to blind persons	(5) —	33,715	35,928	58,090	67,000
Family allowances	....	172,632	245,141	263,165	270,973
General health grants	....	....	....	....	8,677
National Revenue (including Income Tax)	20,114	22,630	28,551	37,312	51,295
National War Services	838	5	....	....	....
Post Office	54,629	57,730	64,213	67,944	78,015
Prime Minister's Office	64	61	88	99	114
Privy Council	81	419	808	1,287	3,802
Public Archives	124	127	149	157	171
Public Printing and Stationery	232	238	293	536	877
Public Works	13,169	16,283	26,360	35,545	51,730
Reconstruction and Supply	969	2,103	1,932	12,342	3,376
Dominion Fuel Board Administration, coal subsidies and subventions	(6) —	2,339	1,776	1,143	(7) —
Royal Canadian Mounted Police	7,183	7,284	8,604	10,406	13,523
Secretary of State	864	954	1,157	1,345	1,674
Trade and Commerce	5,830	6,356	9,776	10,846	25,553
Dominion Fuel Board Administration coal subsidies and subventions	—	—	—	—	2,585
Mail Subsidies and Steamship Subventions	869	994	1,103	(8) —	(8) —
Transport—					
Administration and general	1,390	1,440	1,499	1,973	2,258
Air Service	3,939	4,196	5,653	10,390	18,432
Marine Service	4,897	4,895	5,963	6,831	8,282
Railways and Canals	3,306	3,391	3,702	4,073	5,473
Maritime Freight Rates Act	4,733	4,345	4,871	5,090	6,758
Mail Subsidies and Steamship Subventions, including Canadian Maritime Commission	....	....	....	1,764	2,171
Veterans Affairs—					
Departmental Administration	196	1,142	1,680	1,677	2,329
Pensions (World War 1 and military)	39,372	39,996	40,771	41,227	....
Pensions (World Wars 1 and 2 and N.W. Rebellion, 1885)	(9) —	(9) —	(9) —	(9) —	103,673
War Services gratuities and re-establishment credits	20,228	(9) —	(9) —	(9) —	(9) —
Treatment and after-care of returned soldiers and allowances to dependents	19,845	28,551	44,303	46,286	69,220
Soldiers Settlement and Veterans Land Act	1,391	3,160	6,551	8,092	8,258
Total Ordinary Expenditure	767,376	1,061,902	1,236,235	1,380,002	1,583,310
CAPITAL EXPENDITURE					
Railways	630	2,313	2,654	3,809	3,316
Public Works	2,534	2,195	8,546	11,847	16,239
Total Capital Expenditure	3,164	4,508	11,200	15,656	19,555
WAR, DEMOBILIZATION AND RECONVERSION EXPENDITURE					
National Defence—Army, Navy and Air services	—	—	—	*189,360*	*233,402*
National Defence—Defence Research	—	—	*4,090*	*6,024*	*15,069*

(5) See Department of Finance.
(6) See Department of Munitions and Supply.
(7) See Department of Trade and Commerce.
(8) See Department of Transport.
(9) See War, Demobilization and Reconversion Expenditure.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Continued*

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
WAR, DEMOBILIZATION AND RECONVERSION EXPENDITURE—*Con.*					
National Defence—Army—					
Army Services	1,243,733	935,006	208,106		
Internment Operations	1,580	1,002	135		
Inspection Board of the U.K. and Canada	8,362	6,124	—		
Inspection Board of Canada	—	—	2,819		
Sundry	8,080	7,446	8,064		
	1,261,755	*949,578*	*219,124*		
National Defence—Naval Services	*417,099*	*241,759*	*64,873*		
National Defence—Air Services—					
Overseas War Establishment	759,070	—	—		
Overseas Operations	—	197,076	4,779		
Home War Establishment	227,942	—	—		
Western Hemisphere Operations	—	108,032	37,697		
Air Training	272,342	—	—		
Training Organization	—	74,770	11,962		
Repatriation and Demobilization	—	72,153	16,325		
Restricted Servicing Units	—	38,623			
General Servicing Units	—	14,884	17,109		
Surplus Equipment Units	—	815			
Headquarters and Commands Administration	—	17,880	11,315		
Sundry	102	97	84		
	1,259,456	*524,330*	*99,271*		
Reconstruction and Supply (formerly Munitions and Supply)—					
Administration, reconversion and operation of Crown Companies and/or Crown Plants	—	—	10,784	1,558	(10) —
Administration	8,841	6,858	4,140	1,305	118
Housing development	—	—	35,323	38,558	1,000
Production and transportation subsidies for Canadian steel producers, etc	(11) —	(11) —	12,663	7,950	(10) —
Research and development of jet engines and aircraft	....	....	....	4,500	(10) —
Expansion of Industry	205,039	112,675	....	....	....
Acquisition of U.K. Assets	1,964	....	....	....	....
Acquisition of U.S. Assets	—	1,906	....	....	....
Liquidation of Contracts	—	—	24,743	1,007	....
Termination of Contracts	—	151,846	55,200	6,400	....
Other	2,932	5,522	4,287	1,056	350
	218,776	*278,807*	*147,140*	*62,334*	*1,468*
Agriculture—					
Disposal of agricultural products rendered surplus by the war	1,194	354	958	7	....
Freight assistance on western feed grains	15,943	17,317	18,828	20,092	18,483
Fertilizer subventions and freight allowance	446	438	283	....	....
Subsidies and bulk purchasing of fertilizer	—	—	—	597	358
Subsidy on western wheat used exclusively as feed for live-stock	7,471	7,864	6,474	4,421	....
Subsidy on milk and milk products	42,330	41,659	36,759	1,861	1,000
Premium on hog carcasses suitable for export to U.K.	14,091	9,573	4,506	5,474	5,125
To provide for reserve stocks of feed grains	715	1,274	1,551	434	....
Sundry	5,864	4,499	1,757	347	31
	88,054	*82,978*	*71,116*	*33,233*	*24,997*
External Affairs—					
Contribution to International Refugee Organization	....	....	....	5,468	5,415
General post UNRRA relief	....	....	....	16,927	367
Sundry	296	383	837	5	88
	296	*383*	*837*	*22,400*	*5,870*

(10) See Department of Trade and Commerce.
(11) Included in Expansion of Industry.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Continued*

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
WAR, DEMOBILIZATION AND RECONVERSION EXPENDITURE—*Con.*					
Finance—					
Comptroller of the Treasury	9,216	9,369	6,072	1,702	(12) —
Wartime Prices and Trade Board—Administration	12,720	14,753	12,738	5,794	3,570
Subsidies due to application of Order placing a ceiling over all prices	107,338	97,819	88,778	34,341	15,000
Advances for payment of drawback claims to millers and other manufacturers of wheat products	19,700	14,750	26,000	17,000	17,200
Advances to the Canadian Wheat Board to cover deficits in certain Board operations	13,058	—	(13) —	(13) —	(13) —
House Conversion Program	4,053	1,764	(14) —	(14) —	(14) —
Old Age Pensions, increased benefits	8,788	(15) —	(15) —	(15) —	(15) —
Halifax V-E Day disorders and explosion—					
Payment of claims	—	4,610	2,127	....	....
Expenses of investigations	—	248	161	....	....
Sundry	1,646	958	999	363	1,369
	176,519	*144,271*	*136,875*	*59,200*	*37,139*
Labour—					
Industrial training	1,617	701	15	....	....
Training aircraft mechanics	333	3	....	....	....
National Selective Service program	11,098	11,268	11,230	(16) —	(16) —
Removal of enemy aliens from protected areas	2,137	2,203	3,161	....	....
Vocational training for discharged members of the Canadian Armed Forces	602	4,365	13,049	6,405	3,310
Vocational Schools—Payments to Provinces	—	607	2,442	3,264	(17) —
Sundry	3,877	3,712	2,757	1,723	1,768
	19,664	*22,859*	*32,654*	*11,392*	*5,078*
Mines and Resources—					
Prince Rupert — Terrace — Cedarvale Highway	2,499	8	....	....	....
Employment of Japanese	511	262	45	....	....
Aerial Photography	51	572	944	726	1,140
Sundry	2,753	2,633	1,509	1,086	233
	5,814	*3,475*	*2,498*	*1,812*	*1,373*
National War Services—					
War Charities—Auxiliary services	15,933	13,070	....	....	....
Censorship	1,856	859	....	....	....
Sundry	8,193	316	29	....	....
	25,982	*14,245*	*29*	....	....
National Health and Welfare—					
Old Age Pensions, increased benefits	(18) —	9,103	9,517	996	(17) —
Sundry	1,340	2,135	157	107	30
	1,340	*11,238*	*9,674*	*1,103*	*30*
Privy Council—					
Canadian Information Service (formerly Wartime Information Board)	1,700	1,229	....	....	....
Sundry	58	43	45	8	....
	1,758	*1,272*	*45*	*8*	....
Public Works	*6,500*	*6,205*	*3,651*	*1,242*	....
Royal Canadian Mounted Police	*3,709*	*4,775*	*1,896*	*1,627*	....
Trade and Commerce—					
Gift of wheat to Greece	6,749	....	....	....	....
Administration	—	—	—	—	993

(12) Included in ordinary expenditure.
(13) Included in special expenditure.
(14) See Department of Reconstruction and Supply.
(15) See Department of National Health and Welfare.
(16) Included in ordinary expenditure (Unemployment Insurance administration).
(17) Included in ordinary expenditure.
(18) See Department of Finance.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Continued*

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
WAR, DEMOBILIZATION AND RECONVERSION EXPENDITURE—*Con.*					
Trade and Commerce—*Con.*					
Administration, reconversion and operation of Crown Companies and/or Crown Plants	—	—	—	—	2,900
Production and transportation subsidies for Canadian steel producers, etc	—	—	—	—	7,500
Research and development of jet engines and aircraft	—	—	—	—	2,000
Sundry	670	1,772	682	126	5,344
	7,419	*1,772*	*682*	*126*	*18,737*
Transport	*16,433*	*15,013*	*9,723*	*6,387*	*1,823*
Acquisition of airfields and works from United States Government	*18,661*	....	....	....	....
Veterans Affairs—					
Treatment—Defence Forces	11,449	26,298	50,982	27,130	(17) —
Pensions—Defence Forces	11,939	22,200	33,763	40,517	(17) —
Additions, alterations and improvements to departmental hospitals, including land purchases	5,738	7,371	8,334	6,805	4,969
Post-discharge rehabilitation benefits	2,468	32,131	96,762	78,323	47,475
War service gratuities and re-establishment credits	(17) —	239,585	318,325	84,175	36,161
Sundry	1,165	774	273	418	174
	32,759	*328,359*	*508,439*	*237,368*	*88,779*
Other Departments	*2,960*	*2,453*	*2,181*	*805*	*596*
Write-off of Air Training Plan Loans and Advances as per United Kingdom Financial Agreement Act, 1946	....	*425,000*	....	....	....
Mutual Aid (excluding administration)	*792,200*	*766,862*	....	....	....
Military Relief	*50,199*	*34,463*	....	....	....
Canada's Contribution to UNRRA	*11,093*	*142,852*	....	....	....
Total War, Demobilization and Reconversion Expenditures	4,418,446	4,002,949	1,314,798	634,421	434,361
SPECIAL EXPENDITURE					
Agricultural and Other Projects	3,869	4,423	4,432	5,253	9,666
Prairie Farm Assistance Act, 1939—					
Administration	188	327	333	450	501
Advances to Prairie Farm Emergency Fund	1,295	12.052	6,597	10,744	8,905
Wheat acreage reduction plan—					
Administration	261	159	....	....	....
Payments of awards to farmers	1,707	397	2	....	....
Deficits—Canadian Wheat Board	(19) —	....	20,562	31,450	4,454
Provision of reserve to meet deficits resulting from the operations of the Canadian Wheat Board not previously provided for	186	....	....	....	....
Subsidies on oats and barley used as feed for live stock—Dept. of Agriculture	....	....	....	13,963	....
Reimbursement to Canadian Wheat Board for expenses of regulating deliveries of grain—Dept. of Trade and Commerce	....	....	....	733	128
Reimbursement to Canadian Commercial Corporation for expenses in purchasing materials, etc., on behalf of Dept. of National Defence—Dept. of Trade and Commerce	....	....	....	548	768

(17) Included in ordinary expenditure.
(19) Deficits charged to the War Appropriation in 1944-45.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(Thousands of Dollars)

—	1944–45	1945–46	1946–47	1947–48	Estimated 1948–49
	$	$	$	$	$
Special Expenditure—*Con.*					
Fraser Valley, B.C., Flood Area—					
Repairing and reconstructing dykes	....	....	....	....	4,500
Grant for emergency relief and rehabilitation	....	....	....	....	5,000
Repairs to Federal Government structures and telegraph and telephone lines	....	....	....	....	461
Total Special Expenditure	7,506	17,358	31,926	63,141	34,383
Government Owned Enterprises					
Losses charged to Consolidated Deficit Account—					
Prince Edward Island Car Ferry and Terminals	773	688	888	932	1,220
Canadian National Railways	....	....	8,962	15,885	33,533
Trans-Canada Airlines	....	....	....	1,370	2,933
National Harbours Board	59	86	114	137	238
Total Charged to Consolidated Deficit Account	832	774	9,964	18,324	37,924
Loans and advances non-active—					
National Harbours Board	526	560	718	371	1,743
Total government owned enterprises	1,358	1,334	10,682	18,695	39,667
Other Charges					
Write-down to assets chargeable to Consolidated Deficit Account—					
Reduction of soldier and general land settlement loans	325	36	232	3	....
Reduction of Veterans' Land Act loans	....	....	129	2,097	1,150
Yearly established losses in seed grain and relief accounts—					
Department of Mines and Resources	36	45	54	63	60
Cancellation of Canadian Farm Loan Board Capital Stock	1	1	....	....	....
Canadian National Railways Securities Trust Stock—reduction due to retirement of equipment	....	....	1,308	1,885	....
Provision for reserve for possible losses on ultimate realization of Active Assets	25,000	25,000	25,000	75,000	75,000
Provision for reserve for conditional benefits under Veterans' Land Act	....	464	2,663	4,505	5,728
Canadian National Railways Securities Trust Stock—					
Net changes in Dominion's equity in Canadian National Railways	22,400	22,631	....	....	....
Transfer from Capital Accounts—Airways and Airports, to Consolidated Deficit Account (Airways facilities, State of Michigan, U.S.A.)	—	—	—	158	....
Total other charges	47,762	48,177	29,386	83,711	81,938
Grand Total Expenditures	5,245,612	5,136,228	2,634,227	2,195,626	2,193,214

ANNUAL CHANGES IN ACTIVE LOANS AND ADVANCES AND INVESTMENTS FOR THE LAST FIVE FISCAL YEARS

(Thousands of Dollars)

—	Fiscal Years Ended March 31				
	1945	1946	1947	1948	Estimated 1949
	$	$	$	$	$
Loans and Advances					
RAILWAY AND STEAMSHIP COMPANIES—					
Canadian National Railways	83,608	43,614	Cr. 20,521	81,717	4,100
Canadian National (West Indies). Steamships, Ltd	....	Cr. 450	....	....	....
Net Total, Railway and Steamship Companies	83,608	43,164	Cr. 20,521	81,717	4,100
SUNDRY GOVERNMENT AGENCIES—					
Canadian Broadcasting Corporation	....	....	2,000	....	1,200
National Harbours Board	8	Cr. 66	151	Cr. 26	200
Soldier Settlement and Veterans Land Act	3,948	18,677	55,202	37,522	20,700
Central Mortgage and Housing Corporation	....	....	....	22,500	70,500
Sundry Crown Companies	Cr. 16,774	Cr. 20,087	Cr. 49,948	Cr. 14,686	Cr. 11,600
Sundry Crown Plants, privately managed	Cr. 10,909	Cr. 4,997	Cr. 41,100	....	....
Other	38	Cr. 40	23,932	Cr. 6,549	Cr. 4,800
Net Total, Sundry Government Agencies	Cr. 23,689	Cr. 6,513	Cr. 9,763	38,761	76,200
Provincial and Municipal Governments	15,599	Cr. 4,350	Cr. 2,530	Cr. 63,629	Cr. 5,200
UNITED KINGDOM AND OTHER GOVERNMENTS—					
United Kingdom, loan under The War Appropriation (U.K. Financing) Act, 1942	Cr. 55,098	Cr. 63,946	Cr. 95,800	Cr. 111,285	Cr. 34,400
Union of Soviet Socialist Republics—Loan for purchase of wheat	....	Cr. 2,500	Cr. 5,000	Cr. 2,500	....
United Kingdom, Australia and New Zealand—Air Training accounts	81,586	Cr. 249,504	Cr. 2	....	....
United Kingdom—British Commonwealth Air Training Plan—Settlement	....	Cr. 200,000	....	....	....
United Kingdom, food advance accounts	10,613	Cr. 9,311	Cr. 21,301	....	....
Export Credits Insurance Act	....	67,412	267,983	130,934	68,200
United Kingdom Financial Agreement Act, 1946	....	....	640,000	368,000	37,000
War Supplies, Ltd	Cr. 71,158	....	....	....	....
Other (U.K. and Other Governments)	Cr. 4,215	123,308	Cr. 139,114	Cr. 3,212	2,000
Net Total, U.K. and Other Governments	Cr. 38,272	Cr. 334,541	646,766	381,937	72,800
MISCELLANEOUS—					
Dominion and National Housing Acts	Cr. 1,240	Cr. 14,721	....	....	....
Sundry munitions contractors, etc., (Department of Reconstruction and Supply)	7,975	Cr. 757	Cr. 10,868	Cr. 1,781	....
Sundry Loans and Advances	Cr. 74	Cr. 74	Cr. 4	653	Cr. 800
Net Total, Miscellaneous	6,661	Cr. 15,552	Cr. 10,872	Cr. 1,128	Cr. 800
Net Total, All Loans and Advances	43,907	Cr. 317,792	603,080	437,658	147,100

ANNUAL CHANGES IN ACTIVE LOANS AND ADVANCES AND INVESTMENTS FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(Thousands of Dollars)

	Fiscal Years Ended March 31				
	1945	1946	1947	1948	Estimated 1949
Investments					
Central Mortgage and Housing Corporation Capital Stock	....	25,000	....	....	....
Canadian Farm Loan Board	Cr. 5,001	Cr. 2,401	Cr. 600	99	1,100
Canada's subscription to capital of International Bank for Reconstruction and Development	....	36	48,750	16,250	....
Canada's subscription to capital of International Monetary Fund	....	33	299,970	....	....
Central Mortgage Bank Capital Stock	....	Cr. 250	....	....	....
Export Credits Insurance Corporation Capital Stock	500	2,000	....	2,500	....
Polymer Corporation, Ltd.	....	....	42,886	....	....
Balances receivable under agreements of sale of Crown assets	....	....	13,503	Cr. 1,972	Cr. 300
Other Investments	1,754	770	4,297	Cr. 28	....
Net Total, Investments	Cr. 2,747	25,188	408,806	16,849	800
Net Total of changes in Loans and Advances and Investments([1])	41,160	Cr. 292,604	1,011,886	454,507	147,900

([1]) Does not include advances to the Foreign Exchange Control Board nor amounts temporarily invested by the Government in its own securities.

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1949, AND ANNUAL INTEREST THEREON

Date of Maturity	Rate per Cent	Where Payable	Amount of Loan	Annual Interest Charge
			$ cts.	$ cts.
1949, May 1	$\frac{5}{8}$	Canada	200,000,000 00	1,250,000 00
July 1	4	Canada	33,293,470 85	1,331,738 83
Sept. 1	$\frac{3}{4}$	Canada	550,000,000 00	4,125,000 00
Nov. 1	$1\frac{3}{4}$	Canada	267,800,000 00	4,686,500 00
1950, Feb. 1	$3\frac{1}{4}$	Canada	49,991,850 00	1,624,735 13
Mar. 1	$1\frac{1}{2}$	Canada	325,000,000 00	4,875,000 00
Nov. 1	$1\frac{3}{4}$	Canada	335,690,000 00	5,874,575 00
Nov. 1	$1\frac{3}{4}$	Canada	400,000,000 00	7,000,000 00
1951, Feb. 1	$3\frac{1}{4}$	Canada	(1) 50,250,000 00	1,625,000 00
June 15	3	Canada	(2) 649,969,592 50	19,306,027 50
Nov. 1	$1\frac{3}{4}$	Canada	500,000,000 00	8,750,000 00
1952, Feb. 1	$3\frac{1}{4}$	Canada	(3) 50,500,000 00	1,625,000 00
Oct. 1	3	Canada	324,945,700 00	9,748,371 00
1954, Mar. 1	3	Canada	(4) 676,355,489 00	20,089,767 00
1955, May 1	$3\frac{1}{4}$	London	3,833,893 18	124,601 53
June 1	3	Canada	40,000,000 00	1,200,000 00
June 1	3	Canada	55,000,000 00	1,650,000 00
1956, Nov. 1	3	Canada	(5) 855,607,410 50	25,414,081 50
Nov. 1	$2\frac{3}{4}$	Canada	*327,055,000 00	8,994,012 50
1957, May 1	3	Canada	1,111,261,650 00	33,337,849 50
Nov. 1	$2\frac{3}{4}$	Canada	*186,710,000 00	5,134,525 00
1958, June 1	3	Canada	88,200,000 00	2,646,000 00
Sept. 1	4	London	2,574,936 32	102,997 45
Nov. 1	$2\frac{3}{4}$	Canada	*236,064,000 00	6,491,760 00
1959, Jan. 1	3	Canada	1,197,324,750 00	35,919,742 50
Nov. 1	$4\frac{1}{2}$	Canada	289,693,300 00	13,036,198 50
1960, June 1	3	Canada	1,165,300,350 00	34,959,010 50
Oct. 1	4	New York	100,000,000 00	4,000,000 00
1961, Jan. 15	$3\frac{1}{4}$	New York	48,000,000 00	1,560,000 00
1962, Feb. 1	3	Canada	1,315,639,200 00	39,469,176 00
1963, July 1	$3\frac{1}{4}$	London	2,847,428 94	92,541 44
Aug. 1	3	New York	150,000,000 00	4,500,000 00
Oct. 1	3	Canada	1,295,819,350 00	38,874,580 50
1966, June 1	$3\frac{1}{4}$	Canada	54,703,000 00	1,777,847 50
Sept. 1	3	Canada	1,691,796,700 00	50,753,901 00
Perpetual	3	Canada	55,000,000 00	1,650,000 00
1949, April 8 Treasury Bills	·411	Canada	75,000,000 00	308,250 00
April 22 Treasury Bills	·411	Canada	75,000,000 00	308,250 00
May 6 Treasury Bills	·412	Canada	75,000,000 00	309,000 00
May 27 Treasury Bills	·415	Canada	75,000,000 00	311,250 00
June 10 Treasury Bills	·424	Canada	75,000,000 00	318,000 00
June 24 Treasury Bills	*·424	Canada	75,000,000 00	318,000 00
Sept. 2 Deposit Certificates	·75	Canada	100,000,000 00	750,000 00
1950, June 15 Non-Interest Bearing Certificates	....	Canada	*268,300 00	....
War Savings Certificates	3	Canada	*175,041,000 00	5,251,230 00
			15,411,536,371 29	411,474,519 88
Refundable portion of excess profits tax (estimated)	....	Canada	*173,500,000 00	....
			15,585,036,371 29	411,474,519 88
Payable in Canada			15,277,780,112 85	98·01%
Payable in New York			298,000,000 00	1·93%
Payable in London			9,256,258 44	0·06%
			15,585,036,371 29	100·00%

(1) Redeemable at 100½ per cent. Amount outstanding includes $ 250,000.00 redemption bonus.
(2) Redeemable at 101 per cent. Amount outstanding includes $6,435,342.50 redemption bonus.
(3) Redeemable at 101 per cent. Amount outstanding includes $ 500,000.00 redemption bonus.
(4) Redeemable at 101 per cent. Amount outstanding includes $6,696,589.00 redemption bonus.
(5) Redeemable at 101 per cent. Amount outstanding includes $8,471,360.50 redemption bonus.
* Estimated.